

Saturday Night

Canada's Magazine of Business and Contemporary Affairs

JANUARY 7TH 1961

20 CENTS



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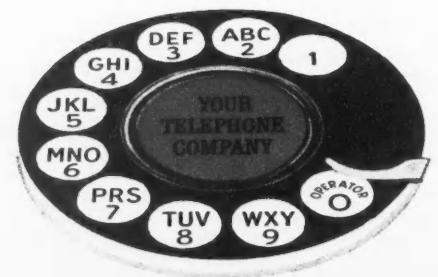
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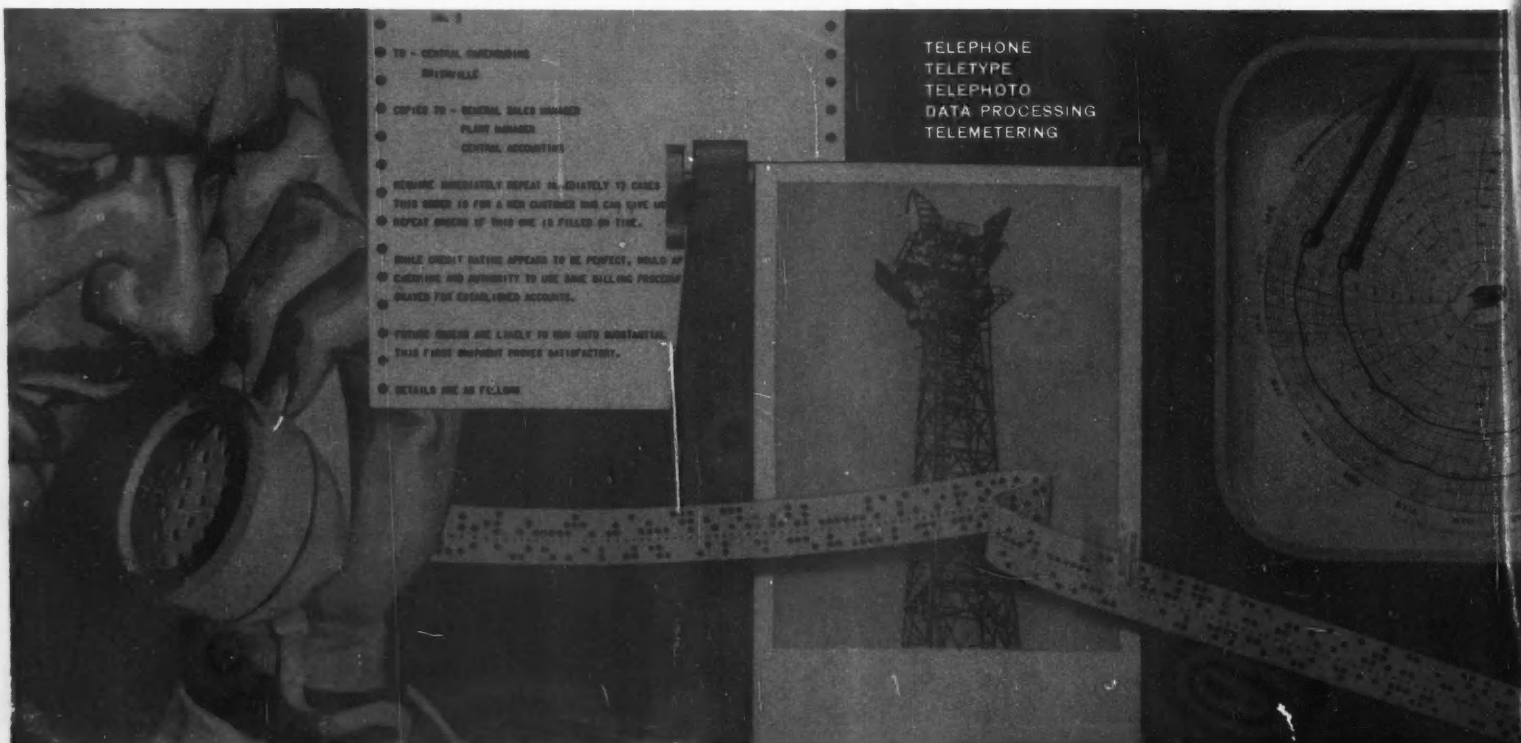
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ARTICLES

BUSINESS: 1961

Prescription for the Securities Business

by the Editors, 7

Unions Face the Year of Decision

by Frank Drea, 13

More Trouble for a Fragmented Economy

by R. M. Baiden, 17

Tax Incentives Are Needed Now

by H. I. Macdonald, 20

Why the Economists Dislike Coyne

by H. C. Eastman, 24

Needed: Easier Money and Lower Interest

by A. N. McLeod, 25

DEPARTMENTS

Books, 29

Comment of the Day, 4

Crossword, 28

Gold & Dross, 32

Letters, 2

Ottawa Letter, 15

Point of View, 36

INSIDE STORY

THE COVER: "King" Diefenbaker finds some very active opponents on the economic chessboard.

Since SN presented its Special Report on the securities industry early last year, there has been a marked improvement in both the quality of new regulations and in their enforcement. At the same time, however, there has been a marked decrease in trading activity. Now, the editors of SATURDAY NIGHT present a further Report outlining how the securities industry, and particularly the Toronto market, can revive its flagging fortunes.

The outstanding characteristic of our current economic recession is the degree to which it fragments the economy. Business Editor **R. M. Baiden** analyzes this feature and then shows that by our own standards we have further to go to regain the prosperity of post-war years than may appear.

Direct aid to bolster key sections of our internal economy is a necessary first step in eliminating Canada's nagging trade imbalance. **H. I. Macdonald**, of the Department of Political Economy at the University of Toronto and Dean of Men, University College, analyzes our trade problems and states how and where specific remedies should be applied.

The long simmering controversy about Canada's monetary policy finally broke around the head of **J. E. Coyne**, Governor of the Bank of Canada, when a group of university economists called for his dismissal. **H. C. Eastman** of the Department of Political Economy at the University of Toronto was one of this group. Professor Eastman accuses Coyne of incompetence. **A. N. McLeod**, economist for the Toronto-Dominion Bank provides the long-range context for interpreting the controversy.

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Letters

Not Uncle's Frigate

The photograph illustrating Joachim Joesten's article "A Nation Under Arms Again" [SN Dec. 10] is actually a frigate, either a British "River" class or a Canadian "Prestonian" prior to modernisation and not, as captioned, "an American destroyer on loan" etc.

It probably doesn't matter very much but one frequently comes across these mistakes, caused, apparently, by the assumption that if it flies, floats or goes "bang" it does so as a result of the generosity of good old Uncle Sam. This ain't necessarily so.

RICHMOND, BC

MICHAEL JONES

Pugnacious Painter

Seldom have I heard such arrogant and arbitrary opinions as those voiced by Kenneth Forbes on Picasso and Cezanne in your issue of Dec. 10 "Forbes—Leader of the Old Guard".

If Forbes believes that "Picasso could not paint traditionally to save his neck and so he took refuge in the grotesque style", then I can only recommend that he study Picasso's earliest work—particularly the Blue Period. Pablo Picasso is considered to be one of the greatest living draughtsmen (as is Salvador Dali, another "grotesque" painter who probably also shares the wrath of Forbes) and his name and his works will live on long, long after Kenneth Forbes has been forgotten. Incidentally, as a European who has devoted some little time to the appreciation of painting—both traditional and "modern"—I might add that I had never heard of Forbes until I read the article in question.

Forbes should have stuck to prize-fighting—a much more fitting occupation to someone with as little imagination as he seems to possess.

TORONTO

ERIC WHITMAN

The Press and the "Word"

Your Beverley Nichols draws my protest on two counts in his recent defamation of Lady Chatterley.

In his "Required Reading in the Pubs" [London Letter, SN Dec. 10] Nichols raises once again the question of whether there is a difference between the "word" in a book, and the "word" on the stage.

There is a difference, and it lies in the ability of the printed page to convey acts

of violence or passion with a discretion and taste not usually possible on the stage. I don't claim that the "word" should *never* be heard on the stage but I hope Her Majesty's censor will demand a more imaginative script than a simple vulgarization of "not bloody likely".

The "word" in this case will probably be ruled obscene, and the enterprising revue writer given a firm slap on the wrist. This is as it should be, and despite Nichols' arguments to the contrary, cannot be considered as inconsistent administration of justice.

Along with Nichols, I am not elated at the acquittal of Lady Chatterley's publishers, but for a different reason. I say "not elated", because the sordid and widely-read proceedings themselves seem to have done immeasurably more harm than the "word" itself. If Lady C. has churned up the hormones of British youth, the fault lies not with the book, the "word" or even Lawrence. The fault lies with the press.

The lesson to be learned by the censor is that, in a country where the press is free, the most ingenious public relations house could never devise an advertising scheme with as great an impact as legal proceedings against the publishers of a banned novel. The lady, in this case, would have been better left alone.

MONTREAL

ROBERT A. RICHARDSON

Sweet Music

A reprint of a letter to your publication concerning the recent concert tour of the Hart House Orchestra appeared recently in a Vancouver newspaper. It was written by a correspondent from Osoyoos, BC, who criticized vehemently the program offered in our capital city, under the baton of Dr. Boyd Neel.

Her letter interested a number of us here (seven hundred miles North and East of Vancouver) because the numbers she mentioned had also been offered to us, a city of ten thousand of which the population is a trifle nearer the "frontier" than Vancouver. So we *weren't* being "played down to"! Many of us suspected that we were, and were greatly disappointed. Someone said the program might have been selected for a workshop of rural music teachers preparing students for the Toronto Conservatory examinations. One could almost feel the mothers of piano students, and ex-piano students

counting as in home practice sessions.

People like us, far from larger cities, are more hungry for good music, probably, than our city friends. It is more of a tragedy when a whole long-awaited concert turns out to be what Dr. Boyd Neel quoted—"lollypops". Lollipops have more substance than the sticky sweetness of an over-sentimentalized *Danny Boy*. For originality's sake, would Dr. Neel consider calling the latter part of this program, in future, "marshmallows"?

DAWSON CREEK, BC (MRS) D. H. CALVERLEY

Futile Heritage

As a French-Canadian (but now plain Canadian) and still living in Quebec, I feel especially qualified to comment on Miriam Chapin's essay-report on Quebec and French Canada. May I first answer Miriam Chapin's ifs . . . Quebec has so far to go to stand publicly as champion and protector of French minorities throughout Canada that in this rapidly changing world I am convinced Quebec will never make it. If I should be wrong, then Quebecers will be able to claim a miracle *at last*.

Besides having a corrupt government since confederation, the French-Canadians of Quebec are only in unison as far as the language is concerned. It has been a favorite pastime of the French-Canadians to plot against and envy one another since they came to this country.

I vividly remember after the war when French-Canadian firms said to me: "Little girl, go back to school, learn English, then come back and see us." Or "We can't all be 'educated' you know. Why not work as a domestic for a while and then decide what you really want to be." And this with the supposed equivalent of a high school education—grade eleven in Quebec.

For a girl on the threshold of womanhood, this was, to put it mildly, discouraging and particularly contradicting advice. Here I had been told all through (French) grammar and high school to keep my language, to speak nothing but . . . and "education-wise" I was ill prepared, i.e. having had no higher mathematics, algebra, geometry or sciences. The daily half hour of English lessons was continually cut to accommodate long "tirades" on the most peculiar history of Canada—a history which I have since learned to be almost entirely false and without facts.

It wasn't until after I had attended an

English High School and College that I saw (and became convinced of) the futility of my remaining true to this French-Canadian heritage.

I live in Quebec because I hope (and I am presently active) to do "some preaching" on my own against this French-Canadian heritage. Not because I have become something else, but because I did realize I had to live, and to do so with any amount of decency I became a nondescript but a true Canadian. I did not join anyone except in language. However, I recognize the English language as that of America's, and I do live in America.

French-Canadian Jean Marie Domenach's little exhortations, as far as many Quebecers are concerned, are positively feudalistic. He and the handful of his cohorts are actually afraid to lose control over the gullible and cult-happy French-Canadian. He knows, as does the dictating clique who rule, that if French-Canadians were to become anglicized or fully bilingual, they would rise economically and en masse . . . and then what need of a prostituted tongue which leaves one unemployed?

It is much easier to blame things on some one other than oneself, and that is exactly what they're doing. It has been long overdue for these pseudo-apostles to stop provoking people with their "idealistic" exhortations . . . One can't live on them.

This cult built around this North American French tongue, is false and misleading and has kept Quebec to a middle ages existence. Not only do I try to preach my own awakening to others, but my children will never set foot in a French-Canadian school.

HUDSON, P.Q.

SUSAN C. BARRON

Forest Yields

Re: "Let's Halt All Immigration At Once" by W. B. Harvey [Point of View, SN Dec. 10].

Harvey, in his discussion of Canada's national resources, said that much talk about their being limitless was irresponsible and misleading and stated that "Our forests are being cut down many times faster than they are growing". Although I do not believe that our forest resources are unlimited, I wish to show that his is a very misleading statement.

Each year the federal Department of Forestry obtains from the professional foresters responsible for managing Canada's forests, up-to-date records on volumes of standing timber, as well as on depletion by cutting and fire. This information is published annually in a leaflet "Canada's Forests".

The 1960 release shows that in 1959 there were accessible in Canada, on about 611,000,000 acres, 685,369 million cubic feet of wood. The average depletion from 1948 to 1957, including wastage from

forest fires, was 3,424 million cubic feet. This depletion is less than 0.5% of the accessible volume.

Calculation of this annual depletion over the whole area shows that we are removing and burning on the average about 5.6 cu. ft. per acre per year. This is equivalent to one four-foot long pulpwood block 16 inches in diameter or two blocks 11½ inches in diameter per acre per year. A very small yield indeed! Well-managed forests in many parts of Canada are producing 75 to 100 cubic feet per acre per year, and much larger increments are not unknown.

Within the City of Toronto there are several hundred qualified professional foresters employed by the University of Toronto Forestry School, the Ontario Department of Lands and Forests, forest industries, or other professional bodies, who would all have gladly assisted you or the author in correcting such an irresponsible statement as that referred to above before it was printed. I regret you overlooked this.

OTTAWA

D. R. REDMOND

Crackpot Voters

Ian McLeish's letter [SN Dec. 10] puts forth a suggestion which I whole-heartedly agree with. The right to vote is a privilege much abused these days.

The vast majority of the voting public (Vance Packard suggests up to 90 per cent) have no knowledge of the issues at stake in the election and merely vote on the basis of some whimsical idea that enters its head in the voting booth. McLeish's idea that people vote on the basis of self-interest is erroneous—wouldn't it be nice if every voter sat down and really did decide in an unemotional way which candidate offered him the most something for the least nothing.

More and more our elections are personality contests; wives, children, religion and haircuts sway more voters than ideas and good, solid selfishness.

So let's have a voter's test. Let's have the people who can't be bothered voting, lose their franchise, and let's send the PR men back to selling toothpaste. If something isn't done about the political degeneration going on, the country will turn into a dictatorship of the first group that can put up the capital for a mighty assault on the emotions and subconsciousnesses of "the crackpot voters".

MONTREAL

JOHN S. S. BULGER

Selling for What?

Re T. H. Gooch's letter [SN Dec. 10], I'd like to agree that some insurance companies try to hire the right type of insurance agent, but for whose benefit? For the benefit of the insurance company I'm sure, and much less for the paying customers'.

LOCHERBY, ONT.

S. J. WARD



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for
new
delight
in a
drink?



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Comment of the Day

The Baby Budget

THE SO-CALLED baby budget was not a squalling child. It seemed, in fact, to coo towards Mr. Coyne and show that the Government and the Bank of Canada are getting nearer to one another all the time (university economists notwithstanding). But an interim budget can only hint; we must wait for the main April statement to see whether this is really so.

What the budget did do was to:

- encourage relatively small industries in the hope that they would increase their pay-rolls.
- discourage foreign investment and borrowing abroad so that a better balance of payments could be struck on our non-merchandise account.
- tighten regulations for pension plan investment to encourage more Canadian investment.
- tighter regulations for mutual fund investment companies to encourage them to invest in Canada too.

By these nuts-and-bolt means Mr. Fleming hoped to counter, for the short term, such grim emerging trends as a pronounced economic downturn in the U.S. and the UK, falling world prices for raw materials and mounting unemployment.

Whether such very small adjustments will achieve Mr. Fleming's aim will only be known after the next three months. On the surface, it seems unlikely. Certainly, when Parliament reconvenes, the opposition is going to suggest very strongly that the major problem — unemployment — will not be solved by such means. And they no doubt will point out too that this Baby Budget is a swift return to deficit financing after Mr. Fleming's re-flirtation with a balanced budget last April.

The budget also implemented a suggestion SATURDAY NIGHT made in the summer . . . that students should have some allowance made so that they can avoid income tax on summer earnings destined to pay tuition fees in the Fall.

Brains or Hockey

STAFFORD SMYTHE is anxious about the future of hockey in Canada and is alarmed at the emphasis being put on scholarship in schools as opposed to the emphasis on sports. Such concentrated study, he feels, is robbing youngsters of

the time they might give to games.

It is our opinion that any youngster who is going to get entangled in the horse-trading jungle of professional hockey needs all the learning he can get in order to hold his end up. For it is not sport which Smythe is talking about; it is the

New Year's Greetings

To Mr. Walter Pitman:

FELICITATIONS for your feat
Fall somewhat short of being hearty.
You've gained Objective One (a Seat);
What of Objective Two (a Party)?

To Mr. Coyne:

Bury the hatchet, Jim, and go
With Fleming on some fishing-dates,
Out of which amity might grow
Deliverance from the wicked States.

To Mr. Fleming:

May you produce in 'sixty-one
(a) Income tax serenely small
(b) Taxes odious to none
(c) Better still, no tax at all.

To Mr. Diefenbaker:

May 'sixty-one bring less derision
From critics, and bring praise a-plenty.
May the New Year improve your Vision.
And bring it up to twenty-twenty.

To the Liquor Control Board:

This year, dear hearts, less watered stock
Would bring your clients greater pleasure:
The present inundated crock
Was really just a wartime measure!

To Mr. Castro:

We hope the New Year will not dim
Your pride in Khrushchov's outstretched
hand.
Relax; enjoy; play games with him:
Roulette is fun (the Russian brand).

VIC

hard cash business of providing the spectacle of pro hockey whose tentacles stretch down into even the public schools to tie up youngsters as soon as they show any unusual talent.

Of course there should be a better sports program in our public schools. By and large the schools on the North American continent have the most torpid student bodies (and we use the word advisedly) in the world. As Stephen Leacock said, we

don't play games, we have teams for that.

But to provide such programs we should have to spend vast sums of money on playgrounds and playing fields first, then on equipment and finally on good team coaching, because we have very few playing fields for our public schools and much of the coaching is done by enthusiastic fathers who have pledged their help to a service club. As for ice-rinks, how many so-called community centres are used for young people in any daylight hours? All our playing facilities are used for pro hockey or the semi-pro kind which masquerades as amateur.

Smythe and his like have the talent tied up and all the rinks tied up. To ask for the classroom too is going a little far even for him.

Private Enterprise

REAL INITIATIVE on the part of private businessmen is not yet dead.

The head of a wrecking company read, in a report about the hearings in Ottawa of the Royal Commission on Publications, that the building in which the hearings were being held was very run down and was slated for demolition.

This information was contained in a report of the brief by Consolidated Press.

The head of the firm, reading this, rang us to find out the exact address of where the hearings were held as he said "his firm wanted to bid for the job and it was never too soon to get the bid in."

The Silly Professors

THE LETTER to Finance Minister Fleming from a group of university economics professors was a curious missive. It attacked the governor of the Bank of Canada in violent terms; it gave no reason for so doing; and it added nothing to the continuing debate on economic policy which needs the wisest heads and the calmest analysis if we are all to benefit.

We are entitled to expect intellectual leadership from universities. But leadership of any kind requires courage, knowledge and endurance. On all three counts all but two of these particular professors are wanting. For what courage did they show in sending a personal letter to a Cabinet Minister reviling a permanent official of the Government and first seeing to it that the matter was reported fully in the press with the exception of their

names? People who send letters to newspapers without signing their names, or, if they sign them, want their names withheld, are known in the trade as "gutless wonders" — an accurate description.

What knowledge did they show? Very little more than most semi-informed persons who are trying every day to understand the actions of government and the fluctuations of the business cycle which precipitate those actions. If these professors had known more they should have said it. We need no trained researcher to tell us that things are in a mess. Even journalists can see that. What we want to know is how the mess can be cleared up.

As for endurance, that was least of all in evidence. One alleged leak to the press and not a squeak more from most of them. Only Professor Neufeld and Professor Eastman (See page 24) pursued the matter. Are politicians to be impressed with such gadflies?

If it is leadership we need, and we do, let these and other people like them in universities first do some hard thinking and then seek the public prints for hard talking. The columns of this journal and every daily paper in the country are open to such an approach. Not only would we accept such material, we are eager for it, as the inclusion of Professor Eastman's contribution shows.

There are not so many brains in this country that we can afford to waste any of them. But to sally forth from the groves of academe merely to insult someone who has tried hard to get a proper discussion going on the nation's economic health is unworthy. And such action not only makes the majority of the anonymous professors look foolish or vengeful in the eyes of the public, it makes people wonder whether other faculty members are equally lacking in intellectual integrity.

Weaklings and Divorce

SO DIVORCES are now to be handled by the Senate alone instead of, as with all other legislation, by both Houses of Parliament. Such a procedure is not unconstitutional, or at least that is the belief of the Government and was so stated when the Prime Minister was questioned on the point by the leader of the Opposition, Mr. Pearson. But the nagging fact of the matter is that even if it were unconstitutional, no-one would really care. Divorce, from those provinces which do not allow it provincially, is a burden on Parliament's time and, if the burden can be lightened in any way, it will be, constitution or no.

If that appears somewhat cynical, one can only say that divorce procedures in this country create cynics. In Ontario, where divorce can be granted on proof of adultery alone, it is clear that such

proof is manufactured almost every day of the week. One lawyer has already been disbarred and imprisoned for doing it and others are not so secure in their deceptions as they may think.

And why all this twisting and turning? Is it to deter people that we make divorce difficult, turning incompatibility into a crime? And if it is to keep families together no matter what, is not this just as distressing to the children as if the matter were settled definitely and tenable arrangements made for them? A home where there is merely the wreck of a marriage is just as much a broken home as if the parts were scattered.

Or is it to appease the Roman Catholic church? And if it is, what has that got to do with it? If Roman Catholics are not allowed by their religion to get a divorce, then it is up to the church to expel them if they do. But to deny such legal relief to Anglicans, Presbyterians, Jews, United Church people, Unitarians, or agnostics because of the vested interest of one authoritarian church is tyranny.

What we need in this country (or any other country for that matter) is more politicians who have the courage of their convictions and will pit them against the bigotry and prejudice of any establishment.

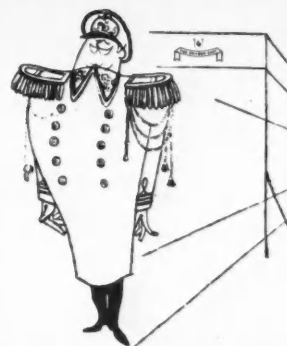
The fact that the new procedure was brought into Parliament by a private member shows that we have some such people. But that they are pitifully few is shown equally in that only forty-five members were in their seats for the debate.

Where were the rest, the great majority of members? Not, we suggest, out of Ottawa. With the baby budget coming down the next week they had surely not gone home for Christmas that early. They were rather where every pusillanimous politician always finds himself in moments of stress — firmly sitting on the fence frightened by a mediaeval morality which few of them believe in and even fewer practise.

Bubbling Health

WHEN THE O'KEEFE CENTRE for the Performing Arts opened in Toronto in October we predicted that, by going commercial and attracting convention visitors as well as the home audience, it would be a most profitable venture. As the first part of the winter season closes, that seems to be true. *Camelot* had standing room only for its whole run, as did *Harry Belafonte* and *My Fair Lady*. *Treasure Island* has done a roaring business for the Christmas holidays and those who have tickets for the Royal Ballet (Sadlers Wells) can count themselves lucky.

If anyone were to ask us how the O'Keefe is doing then, we could only say, to coin a phrase, 'ale and 'arty!



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Prescription for Our Ailing Stock Markets

by the Editors

HOW CAN COMMON STOCKS of Canadian corporations be popularized?

This question is of vital importance to an ailing securities industry. Volume on The Toronto Stock Exchange has slid from a peak of 15 million shares a day a few years ago to one-tenth of this amount. Financial houses may have to merge for survival. Former customers' men are now selling advertising novelties and vacuum cleaners, or running tourist camps.

In an effort to give investment through its facilities a new look, the TSE has recently appointed a non-member as president, several years after the New York Stock Exchange and several months after the two Montreal exchanges.

Behind this new appointment there seems to be a determination to change what have been, in effect, exclusive Canadian clubs functioning as quasi-public institutions, to public bodies with a solid basis of investor support for common stocks, which could be expected to engender speculative interest and trading volume. This might draw into domestic markets some of the high-rolling Canadian speculators who have traditionally favored New York stocks because of their broader markets.

What makes the creation of new stock buyers so important is the heavy bite today's taxes are taking out of the income of the wealthy, hitherto the main source of capital for economic expansion. Their places in the money markets can only be filled in the securities industry by drawing smaller investors into the markets in large numbers.

Although the Victory Loans introduced hundreds of thousands to the idea of investing in securities, and many later bought common stocks, probably as many more shun them because of:

— Erroneous ideas of what it means to be in common stocks.

— A distrust of the treatment to be expected from securities dealers, promoters and corporations.

— A conviction that neither stock exchanges nor governments care what happens to the investor.

— Unfamiliarity with, and confusion about, the mechanics of financial transactions, dividend claims, subscription rights, etc.

— The dollar illusion, and a resultant preference for bonds and debentures, the safety of which has been increasingly illusory in this age of inflation.

Perhaps Canadians suffer from an overdose of Scottish caution; they are said to be the most heavily insured people in the world. Partially as a result of failure to support our own enterprises more than 62 per cent of our mining, manufacturing, smelting, oil and gas industries are now under foreign control.

What this country needs is native equity capital and, to raise it, new appeals must be made for action in common stocks. This calls for the application of the axe and the sledge hammer in several areas, not the least of which is governmental.

There is a critical need for uniform securities legislation in all provinces, or country-wide regulation by Ottawa. Benefits would be two-fold. Investor confusion would be lessened with uniform practices. The sharpies from the financial underworld who now prey on investors could not take cover by moving from one jurisdiction to another when and if they were detected.

Upgrading the standards of registered securities advisers is badly needed. Ontario has, in recent years, cancelled dozens of securities-adviser licenses which it granted to applicants who in practice turned to be fronts for stock jobbers (people about as moral as race-track touts).

Legislation should be brought down to make the dating of assays and other mining developments mandatory. This would deter unscrupulous promoters from holding news for release so as to provide maximum aid to stock-promotion schemes. Thus holding news, and it's openly admitted on Bay Street that it's done, would invite action for recovery of damages by shareholders selling out before the release of news which makes a stock sell higher. Nothing is more calculated to destroy confidence in the stock market than the conviction that promoters and company officials are shuffling news to aid private stock operations.

One of the attractions of common stocks held out by analysts and brokers is their growth possibilities. It may, however, well be asked whether Canadians will follow domestic companies if the possi-

bility of being denied participation in their expansion is projected by such occurrences as the common-stock financing, two years back, of British-American Oil. The company sold two million shares, of which the controlling Gulf Oil took 1,156,200 shares, a number proportionate to its holding, at the offering price of \$40 a share, and the remaining 843,800 shares were sold publicly in Canada. Not all B-A shareholders applied under the public offering. All were, however, denied the benefit of transferable rights to subscribe to stock at a price below the market, which is the traditional method of financing.

While preservation of shareholders' equity from this type of dilution is not a matter of corporate law in the U.S., no large company based, like Gulf, on consumer markets, would dare deny its shareholders the first refusal of new stock. Any B-A shareholder who didn't add to his stock in fact is lucky, since it is now down around \$27. But that is beside the point. So is the fact that directors undoubtedly acted from the best motives. The point is that the shareholder, who has come to associate transferable rights with a growth situation, was let down.

Greater impetus to equity ownership by the average man could come if some controlling interests ceased to regard corporations as private baronies, and dividends to shareholders as an expense of the business rather than a just return on shareholders' capital. Companies of this type appear to function largely to produce tax-free capital gains for large shareholders rather than to earn and distribute profits to all.

A good example was provided by Algoma Steel Corp., whose shareholders received none of the substantial earnings generated after the reorganization of the 30's until Sir James Dunn died in 1954. Then Algoma ceased to be a dog on the market, and quadrupled in value in anticipation of dividends, which commenced when the Dunn estate sold out.

Some companies distribute a shockingly small amount of their earnings. Eric W. Kierans, who became president of The Montreal Stock Exchange and The Canadian Stock Exchange last year, points out that all manufacturing companies' dividends declared as a percentage of

equity (stock plus surplus) declined from a rate of 8.5 per cent in 1950 to 4.6 per cent in 1957. In the latter year the companies reported profits before tax of \$1,411 million but paid out only \$478 million dividends.

Corporations sitting on the till are limiting the interest in their equities to investors who have decided they can't beat the large shareholders and have decided to join them in a play for long-term capital gains. But the companies may have to cry for help if they find it necessary to go into the public markets for expansion funds since they are excluding from their possible support the seeker after current income. They are pushing him into alternative investments such as real estate, which he can buy outright to yield upwards of 8 per cent after management expenses, even more if he finances partly with mortgages. Funds can be borrowed to the extent of 40 per cent or more of value at a lower rate of interest than can be earned from the property. In other words, the real estate equity can have leverage.

Corporate dividend policy should be decided upon earning power and adequacy of capital. Investor-owned companies paying meagre dividends in relation to earnings are undertaking expansion of assets without the benefit of the capital-market test. This is enjoyed when the bulk of earnings is distributed, and expansion financed through subscriptions by stockholders at a price which is attractive because it is below the market price.

The main reason for expanding with funds generated internally is to save the tax bite on larger dividends to major stock holders. This is, however, a dangerous situation for, as Kierans points out, "Distribution to shareholders of dividends has lagged behind other forms of investment, and this may account for the low return on securities, and the difficulty in persuading Canadians to invest in equities."

Algoma Steel has been cited as a bad example of stockholder treatment. On the other side of the coin is Bell Telephone, up 20 per cent in price in the last two years—when most stocks lost ground—and paying 90 per cent of its earnings out to shareholders. Bell has, since 1945, raised \$600 million in share capital and \$530 million through debt securities. Concurrently, the number of shareholders has risen from 25,000 to 175,000 notwithstanding an apathetic view of the company by some professional investment people.

One of Bell's attractions is recurring subscription rights. These can be sold and the proceeds treated as a tax-free additions to dividends.

A serious drawback to many Canadian equities is a dearth of complete and up-to-date information about the companies they represent. Investment dealers seeking to popularize some stocks run into a

blank wall of official silence. This produces an unfavorable climate for attracting additional capital. Not only do dealers fail to push this paper; withdrawal is even encouraged.

Publication of information on U.S. securities, which sophisticated Canadian investors have traditionally followed closely, is conducted on a much wider scale than in this country. Many Canadian companies do not publish sales figures or interim reports while virtually all U.S. corporations do so as a matter of course.

"The securities analyst is welcome in most U.S. corporations," says Lloyd N. Whitten of the Montreal Trust, "and given every opportunity to obtain detailed information about the company, its management, current operations and future plans. In Canada the situation leaves much to be desired." He admits the situation in Canada is improving but as long as it prevails a commitment in a U.S. stock can usually be based on more detailed and current information than an investment in Canadian securities.

Securities analysts seeking information from a company are hardly naive enough to ask for anything confidential. They merely want elaborations of plans, and guidance in estimating position and outlook. And if they can't get it from a company they may get a distorted view from a competitor.

Companies most likely to attract new shareholders do not wait to be approached by analysts; they seek them out. They give talks before associations of analysts. In this setting they drop the circumscribed and cautious language of the annual report, which is essentially a legal document since it is an integral part of the annual meeting. They can relax and give the real story of the company's operations and hopes. This type of information is the securities analysts' stock-in-trade; they aren't slow to get the picture and communicate it to prospective investors.

More talks by company officials in this setting would publicize the general idea of equity investment but Canadian corporation people have been notably reluctant to talk. Welcome exceptions are Dominion Stores and Atlas Steels, and their shareholder and financial-community relations reflect the aggressive approach to all aspects of their business which largely accounts for their success.

Sales-promotion people from other industries find it difficult to understand the reticence of finance to develop new customers. But brokerage and investment is basically a rich man's business since it is subject to extreme ups and downs. The well-heeled have no need to get out and hustle. They naturally associate with private and institutional investors. And by being in the business steadily, they pick some juicy plums. On the other hand, investment salesmen without independent

incomes — who might have some incentive to recruit new customers — may abandon the business in a dull market.

Another reason for the industry's failure to exploit its product is the easy profits of the past. When it talks of recovery it means recovery to the free-wheeling promotional mining markets of a few years ago when commissions rolled in with the greatest of ease and millionaires were made overnight through "deals". But existing metal prices don't support the field work needed to generate big mining markets.

The mining booms also reflected the promotional opportunities inherent in primary distribution of shares through stock exchanges, to which provincial governments have deputed the policing of some securities matters. Under primary financing, the stock buyer does not buy shares from another investor but from a promoter who has bought the shares from the issuing company, usually at a substantially lower price than that which he sells them for through the stock exchange. The price at which the stock trades on the exchange is the promoter's valuation rather than one established by broad forces of supply and demand. Primary distribution through its facilities is not allowed by The New York Stock Exchange — the world's quality market.

The traffic in primary-distribution issues has generated innumerable abuses, as can be readily understood, but has been enormously lucrative, and promoters and some stock exchange factors take a dim view of the idea of the governments terminating it. The real question is, however, not whether the governments will terminate it but why the exchanges ever were allowed to do it.

"Nothing is going to bring back the conscienceless promotional game," financial editor Devon Smith of the *Toronto Telegram* wrote recently. He says business is bad with the brokers for a very good reason. "Practically all members of the TSE relied heavily for commissions upon a great crop of ready-grown business. Very, very little work was ever done on Bay Street to plant and nurture a sustained yield of new customers to replace the old."

Nurturing new customers has produced the world's most successful brokerage firm: Merrill Lynch Pierce Fenner & Smith. Known as the "herd" or "we the people" because of having scores and scores of partners, the firm started to retail capitalism to the masses in the early 30's when confidence in investment was at a low ebb. Wealthy clients had taken to the hills following the 1929 crash. The "herd" undertook a radical step.

It began to push common stocks like soap or appliances by playing up to the consumer, or in this case owner, the benefits of the product. It avoided the tombstone and status-seeking advertising of

the financial trade, and used its newspaper and periodical space to publicize the idea of common-stock investment, re-investment of dividends, and staying invested always rather than adopting the usually unprofitable course of trying to trade the market.

It taught the masses to view the stock exchange as a source of the building blocks of financial independence rather than as a gambling place, or worse still an agency for separating widows and orphans from their nest eggs. The company now originates 20 per cent of the odd-lot orders on The New York Stock Exchange.

Stock brokers here could likewise coax money out from under mattresses or out of biscuit tins interred in the back yard if they would, as Smith urges, "get into the brokerage business."

But before the TSE can win public confidence it will have to extend the face-lifting operations of the last couple of years. It still tolerates practices calculated to keep "caveat emptor" pasted in the investor's hat.

Chief of these is primary distribution. One would think the TSE would be sufficiently interested in developing a quality market at least to segregate the promotional cats and dogs from the blue chips. It could emulate the example of the Montreal Stock Exchange which, to keep unseasoned issues off a select board, in 1928 created the present Canadian Stock Exchange for their trading.

By creating a junior or primary-financing exchange the TSE could kill two birds with one stone: siphon off primary distribution and displace clerks from the floor.

It permits clerks to trade as attorneys for floor members whereas on the New York exchanges all trading is done by members because only they are held likely to possess sufficient responsibility to safeguard the best interests of a firm's clients.

But on the TSE the clerks or attorneys not only execute client's orders; they are permitted to trade on their own accounts. This creates a possible conflict of interest, which was exemplified a few months ago by the suspension of a clerk for actions inimical to a client's interest.

The clerk-trading practice arose as a result of the rapid increase in listings. The TSE could create a second exchange and subdivide existing memberships. This would reconstitute partners in member firms so all floor trading would be done by members.

Seats could be subdivided without creating an additional exchange but this would not solve the problem of primary distribution. This problem was palmed off on the TSE when the Ontario government made it take over the Standard Mining Exchange in the 30's following conspiracy charges which sent several of the latter's leading members to penitentiary. The public thinks the TSE position on prim-

ary distribution has moved from one of tolerance to active espousal. The extent of this is evident in the recent tightening of short-selling regulations to protect promoters trying to get a stock off the ground from price-reducing short sales by traders on the floor.

The TSE could also tighten the enforcement of regulations designed for the investor's protection but sometimes overlooked. No listed company should be allowed to substitute an interim report for the annual report for which the listing agreement provides. Since an annual report is an integral part of an annual meeting, it is not issued without calling an annual meeting. A company might want to avoid the latter because of the opportunity it provides for shareholders to cross-examine officials. So to provide a token fulfilling of its agreement to issue an annual report, there has been at least one instance where a company issued an interim report the exchange accepted.

No listed company should be permitted to delay reporting extensions in financing agreements. Nor should any stock be called for trading until copies of the listing agreement have been distributed to all exchange members.

All exchanges in Canada should be more eager to detect hanky panky on takeover bids, above the market price. The London Stock Exchange holds to the old-fashioned belief that common shares connote mutuality. Last year it cancelled transactions in a stock when it learned that insiders with exclusive information about a takeover had bought the stock lower down.

The mandatory dating of mining assays mentioned earlier would give the exchanges another area in which to exercise vigilance in the public interest. The public interest is the exchanges' interest if they are to function as independent open-auction markets rather than captives of promoters. Dating of mining assays too, it might be noted, would slow up primary distribution through the exchanges although there are those who would have people believe that mining stocks fluctuate without any promoter ever capitalizing news which legally and morally belongs to all shareholders.

Last but not least in the list of important factors in encouraging equity ownership is the daily press. Not only do the financial pages carry the vital stock quotations, they disseminate news calculated to influence the mood of the market and to project the fortunes of various companies.

In London financial news is regarded as important enough to warrant registration with the stock exchange of all brokers' employees writing for the press.

Canadian dailies have done a good job on their financial pages, all things considered, but have missed the opportunities for circulation exploitation inherent in

business and financial news. There is a tendency to regard the financial pages as of secondary importance. Two Toronto dailies recently moved senior financial men of exceptional qualifications to editorial executive work.

Qualified financial reporters are the scarcest commodity in newspapering but publishers apparently rate them no higher than general-assignment men despite their more specialized qualifications. In consequence there is a migration of financial reporters into areas where the rewards are more in keeping with the qualifications — public relations, other publishing, advertising and industry.

The New York dailies have been quick to grasp the opportunities in the financial pages, and in so doing have forwarded the idea of investment by the man in the street. They run stories which interpret and explain finance, and also answer investors' questions. Some Toronto papers have considered going into question answering as a circulation builder but have apparently balked because of a fear of libel suits.

Upgrading financial reporters could have the effect of sharpening the financial-news columns of the dailies, which are often heavy with news releases planted by professional public-relations people acting for companies with an axe to grind. The dailies need more skeptical financial writers, especially those knowing enough not to be taken in by promoters.

From the foregoing it is apparent that the wooing of the small investor is a task of no mean magnitude. What will happen if no one takes any steps to improve the attitude to common stocks?

Investors will either leave their money idle or seek employment for it. If the latter, they may be drawn in increasing numbers to listed U.S. stocks with their active markets, carefully regulated trading and more voluminous news. They may buy trust company debentures or put their money into mortgages.

If the real-estate people ever get wise to the gold mine they could develop by creating a package deal of property ownership and management services there will be a flow of money into this field. Who's going to take only 3 per cent or 4 per cent on common stocks of companies being built up for controlling interests if he can get 10 per cent net on real estate? By net is meant after paying the management charges, so that all the owner does is cash a cheque for his take.

From the standpoint of the Canadian financial industry probably the worst thing that could happen would be for more investors to start buying U.S. stocks. This could engender a movement in the direction of dealing in interlisted Canadian stocks such as Nickel, McIntyre, CPR, Dome, etc. through New York, thus depriving Canadian brokers of business they have always enjoyed.



Khrushchov arriving at site of Paris Summit Conference: Its abrupt break-off advantaged the Western Powers.

And More in 1961:

1960—And Back to the Old Cold War

by John Gellner

A YEAR AGO, in our survey of the events of 1959 [SN January 9, 1960] we of SATURDAY NIGHT took our stand with that wary minority of North Americans who, hard as they looked, could see no real easing of world tensions; we expected nothing from the, then, forthcoming Summit Conference, and we characterized the vaunted "spirit of Camp David" as just a piece of auto-suggestion.

We derive no satisfaction from having been proven right on these points. It was not a difficult prediction, anyway. Much more remarkable was that so many intelligent people in the West should, in their desire to be rid of a political struggle which they are ill-prepared to fight, mentally and morally, have fallen for yet another Soviet tactical manoeuvre, and a rather transparent one at that.

That the Summit Conference broke off even before it got properly under way was not a tragedy—if anything, it was an advantage for the West which was thus prevented from making concessions to Moscow for which, as usual, it would have got nothing in return. The only thing to be sorry about is that because of the unfortunate U.2 incident, and even more because of the ludicrously clumsy way in which the case was handled by the U.S. Government, we derived practically no political benefit from the fact that it was the Soviet Union which brusquely and brutally refused to negotiate. Even people who recognized that Khrushchov was in bad faith all along, had to admit that it would have been difficult for him to sit at the conference table with the Americans at that particular time.

Since May 16, then, the cold war has again been on for us in all its fury—as far as the Soviet camp was concerned, it had never ceased anyway. For those who still can not get it into their skulls that

Moscow is giving to the term "peaceful co-existence" a connotation very different from its literal meaning, B. N. Ponomarev, member of the Central Committee of the Soviet Communist Party and one of its leading theoreticians, has offered a very frank explanation.

"Peaceful co-existence", Ponomarev writes in Pravda, "fosters the development of the class struggle of the proletariat in the capitalist states . . . and encourages the fight against American violence. Under conditions of war preparation, the governing elements in capitalist states suppress all opposition and destroy democracy. In conditions of peaceful co-existence, however, they are forced to yield to opposing forces . . ."

The point to bear in mind is that there is not today, and there never has been up to now, any chance of coming to a *lasting* accommodation with the Soviet camp. Wishful thinking is only debilitating. Instead of chasing chimeras such as the "spirit of Geneva" or the "big thaw" or the "spirit of Camp David", we would do well to try earnestly to get the best out of a political contest which we can not avoid. This, at least, was more clearly perceived in the harsh glare of 1960 than in the deceptively subdued light of 1959.

In this contest, the fortunes of the West have been mixed during the past year.

Going from East to West in our survey of world events in 1960, we find that in Asia we have, by and large, not done badly. There was a notable politico-military victory: on July 31, the twelve year old state of emergency was ended in Malaya. The then King of Malaya, the late Hissamudin Alam Shah, called the suppression of the Communist rebellion in the country "a victory for democracy—the first occasion on which the democratic countries have defeated Communism".

Elsewhere democracy got a boost, too. In South Korea, the obnoxious regime of Dr. Syngman Rhee, who for all his anti-Communist zeal was a heavy moral liability to the West, was toppled by a popular revolt. Dr. Chang, the present Premier, has his job cut out in the mutilated, war-torn and turbulent country, but at least we will not have to apologize for being associated with his regime. In Japan, the vicious demonstrations of left-wingers against the new defence treaty with the United States, which led to the fall of the Kishi government and to the abrupt and deeply embarrassing cancellation of President Eisenhower's state visit, proved to be something of a blessing in disguise.

The more stable elements in the community realized that the prevailing order was in danger. In a general election, the pro-Western regime of Premier Ikeda was returned to office with an increased majority. Even more remarkable, the same thing happened in the Ryukyu Islands, where continued U.S. military occupation had previously led to virulent anti-Americanism and to the spread of radical (mostly radically leftist) political tendencies.

The continued pressure which Red China is bringing to bear upon the northern borders of India has also had some consequences beneficial to the West: India's position toward the Communist camp has stiffened somewhat, and the phoney "spirit of Bandung" has been consigned to limbo; there is at the same time a more conciliatory attitude toward Pakistan. In the latter respect, Nehru's visit to Karachi, and the amicable settlement of the old and acrimonious dispute over the Indus waters were occurrences of great political significance.

Things have gone less well in Indochina. In South Vietnam, the regime of

Premier Ngo Dinh Diem has weathered the storm of an army revolt, but, beset by external and internal difficulties, and weakened by its own shortcomings, it does not look too healthy. Laos is in turmoil. At the time of this writing, leftist, neutralist and rightist factions are fighting one another, with the outright Communist Pathet Lao just about ready to hurl itself at all three and seize power.

What is certain is that responsible (at least by Laotian standards) politicians have fled to Cambodia and Burma, leaving the country at the mercy of comic-opera generals, politically naïve parachutist subalterns, and cold-eyed Communist agents. Should the latter gain the upper hand, then Communist North Vietnam, a creature of Red China as Laos in the times of uneasy peace was a creature of the United States, will have pushed forward on a broad front to the borders of Cambodia and Thailand.

In Turkey, as in South Korea, an objectionable government, with which to be allied was no asset to the Western democracies, was shaken to the core by a popular revolt. In that sternly disciplined country, however, it was not democracy which won out, but another authoritarian regime, albeit apparently an honest one for a change.

The latent dispute between Israel and its Arab neighbors has been, if not dormant, then at least not too active, in 1960. This is in part attributable to the excellent work done by the United Nations truce supervisors, and to the UNEF in the Sinai Desert, but above all to the wrangling among some of the Arab states themselves. The United Arab Republic was particularly truculent. It continued to put pressure on Jordan—the bomb plot which was to have eliminated the King but resulted in the death of the Premier, Hazza Pasha Majali, was alleged to have been hatched in the UAR — and it broke off diplomatic relations with Persia because of the latter's trading with Israel.

Relations between the UAR and Iraq also remained chilly. King Mohammed V. of Morocco toured the member countries of the Arab League on what obviously was a fence-mending mission, but by the end of the year Arab unity still existed more in flowery pronouncements than in reality. The preoccupation of President Nasser with African affairs, especially with Algeria and with the Congo, further contributed to the breathing spell which Israel is just now enjoying.

In Africa, the West's star has been low in 1960. There were three widely separated trouble spots — Algeria, the Congo, South Africa — and in every one of them we have lost in power and prestige.

General de Gaulle's principal assets as a statesman, his inflexibility of purpose and lofty sense of justice, have, in Algeria, unfortunately brought on an aggravation

of the situation. The year had opened under favorable auspices. The rebellion inside the country was practically crushed.

The border defences were holding back intrusions from Tunisia and Morocco. The Constantine Plan for economic betterment was progressing well. So was the Challe Plan of pacification through social works as much as armed security measures. Although the actual percentage can not now be determined, the majority of the Algerian Moslems were undoubtedly content to be citizens of a France which seemed determined to protect them.

Many of these advantages were dissipated as the year progressed. General de Gaulle was slow in making his plans known. When he did state them decisively, they satisfied nobody. They fell far short of what the FLN demands, or is made to demand by the wire-pullers who manipulate it. They made the Algerians of Euro-



New faces came to fore in Africa.

pean extraction fear that they would be abandoned, and the loyal Moslems that they might be left to the small mercies of the FLN.

They made the fence-sitters among the Moslems suspect that the FLN, beaten militarily, might after all win a political victory. The result was that in December, when General de Gaulle was in Algeria, Europeans and Moslems fought one another, and the latter openly flew the flag of the rebellion for the first time in the Algerian revolt.

There is a Kabyle saying: "If you are a hammer, strike; if you are a tent peg, disappear in the ground". Clearly, General de Gaulle has over-estimated his personal power and under-estimated the reluctance of both principal racial groups in Algeria to let themselves be used as tent pegs.

On July 7, Walter Loridan, the Belgian delegate to the United Nations, made the misstatement of the year when he thus welcomed the Congo as an independent state and a new member of the world body: "This democratic nation, directed by men animated by love for their country, as well as aware of their duties to the international community of nations, is capable and willing to uphold all the

obligations which the U.N. places upon its members. The Congolese State has all the necessary elements for providing its people with internal security . . ."

Poor Loridan: he will not find it easy to live down this piece of oratory. Yet it fitted well at the time into the horse-trader's pitch, by which Belgium tried to get rid of a bad animal. The UN has it now in its stable — and has its hands full keeping it.

Belgium has much to answer for. Afraid that she might become involved in an Algerian-type war, she gave independence to a totally unprepared colony with unseemly haste, only to panic and rush in again when the inevitable break-down of law and order occurred. This only compounded the initial error. It also practically forced the UN to intervene, and thus to involve itself directly in a sordid affair instead of standing aside as an arbiter. One after the other, Hammarskjöld's well-intentioned plans went awry. Thus, it seemed only politic to call, first of all, on the African and Asian members of the UN to provide the forces for the policing of the Congo.

Unfortunately, most of them have not yet learned to keep UN interests apart from their own. They have not been impartial. The result were such catastrophic occurrences as the pitched battle in Leopoldville between Congolese troops and Tunisians protecting a Ghanaian diplomat who had favored the head of one of the warring parties in the Congo (Lumumba), and then had refused to leave the country when he got his walking papers from the leader of another (Colonel Mobutu).

There is still a chance that the UN may succeed in imposing law and order upon that chaotic country. Even if this should happen, it would not change the fact that the Congo operation has resulted in a grievous loss of prestige for the UN. The position of the Secretary-General has also been weakened. Hopes for the creation of a permanent international police force of the UN have been dimmed. The reputation of the white man has been tarnished more as a consequence of what happened in the Congo than by anything he ever did, or omitted to do, in Africa.

At the same time, the situation in South Africa has grown progressively worse. The sound of the shootings at Sharpeville and Langa has reverberated through the world. There has been ugly rioting also in the neighboring Central African Federation, which right now is ominously close to breaking up. There, and in the Union of South Africa, the whites do not seem to have found any other solution than to dig in their heels and to defend their privileges dogmatically, uncompromisingly, as long as this will be possible.

That the Union this year has elected to become a republic and will thus have to re-apply for membership in the Commonwealth, should allow the latter to rid itself



Decisive plans of de Gaulle aggravated the tense situation in Algeria.

of a most embarrassing association. This could be done at the next Commonwealth Conference. The present position, with two members of the Commonwealth (Ghana, Malaya) imposing sanctions upon the Union, is in any case untenable.

In Europe, there is perhaps a small credit balance in favor of the West on the ledger sheet for 1960. The Berlin problem, while it was by no means in abeyance, did not develop to the point of acute crisis as was expected. Western Europe still enjoys an economic boom. There are some signs that the "Little Europe" concept is being abandoned, and that a single European trading bloc is perhaps now in the offing. This, from the political point of view, would be a very welcome development. Tensions in the Aegean were eased when the Republic of Cyprus finally came into being after severe birth-pains.

There are, however, worrisome entries on the debit side. NATO is clearly in need of another patch-up job, primarily on the military, but also on the political side. France has proudly entered the nuclear club, but the political stability, which she seemed to have acquired with General de Gaulle's accession to power, has proved short-lived.

In Italy, political radicals, and in particular the Communists, have advanced during the year. Surprising as this may seem in view of the good economic condition of the country — the present boom in Northern Italy is comparable to the recent French and West German—there is a good reason for it: nowhere in the democracies are the economically strong so totally lacking in social conscience as they are in Italy.

The (outwardly at least) solid front which the Americans used to present to the world has been definitely breached by the rise of Fidel Castro's Cuba. Washington's initial indecision, followed by excessive harshness, has probably speeded up the process, but the defection of Cuba into the enemy camp could probably not have been prevented, anyway — for Castro's revolution the Yankees are as indispensable a prop as the Jews were for Hitler's.

Even more ominous than the wholesale nationalisation of all sectors of the Cuban economy are the signs that the well-tested type of Communist organization is being built up throughout the apparatus of the state. The experience of a Canadian, a Mr. Golombek, who was held for a time without charge in a Cuban jail, was characteristic: what interested his interrogators most was why he had left Communist Czechoslovakia some years ago.

The Cuban revolution is definitely for export. It has already spread its tentacles into some Central American states and into Venezuela. It feeds on anti-Americanism which is strong particularly among the intellectual and semi-intellectual proletariat of Latin America.

In all these troubled areas, the Soviet Union and Red China are keeping the pots boiling. Much has been made in 1960 of the ideological differences between these two great powers, but on the international forum they certainly continue to operate, if not always in perfect unison, then at least on parallel course. Thus, the Soviet Union is feeding the revolt in Laos; has recognized the Algerian rebel government de facto (it has supported it materially for years now); is propping up

Castro politically, militarily and economically; and has put its wholehearted support behind the maestro of chaos in the Congo, Lumumba, and now his pupil and successor, Gizenga. Red China is seconding Russia in all these ventures; she has gone even farther in Algeria where she has become the principal supporter and mentor of the rebels.

The Soviet Union has also tried in this past year to strip the UN of its practical peace-making capability by demanding the abolition of the office of the Secretary-General and its replacement by a triumvirate which would be paralyzed from the beginning because of the need for unanimity on every question that should come before it. The Soviets have brusquely walked out of the ten-nations Disarmament Committee which sat in Geneva. And they have made any progress toward some form of practicable disarmament impossible by insisting on negotiating only on the coming of the millenium, to wit, total disarmament.

Where at the end of 1959 there was on the horizon at least the mirage of an easing of world tensions, not even a glimmer of hope is discernible today. The positions of the opposing sides have hardened. It would take a major shift in Communist strategy (such did not really occur in 1959) to bring on a relaxation, but this is not likely in view of the intransigent stand taken by Red China.

So the West, weary as it may be after all the pounding it has taken in these last years, but at least led by a fresh, and let us hope capable, team in the United States, will have to keep on fighting the cold war — and harder than it has been fighting it in 1960.



In South Korean revolt, it was not democracy which won out, but still another authoritarian regime.

Unions Face the Year of Decision

by Frank Drea

FOR CANADIAN LABOR, 1960 will be recalled ruefully as the time when unions forgot to heed the menacing clouds and fluttering storm signals.

At the outset, 1960 looked to the unions to be a rather ordinary year, an off-year in major bargaining negotiations, perhaps a time to be used to consolidate their dream of political maturity and strength through the embryonic New Party.

Of course there would be interesting struggles — on a professional level; the most significant, the attempt by the United Steelworkers to establish national bargaining patterns in the most important of the secondary steel manufacturing industries, the bridge and heavy construction field. The railway problem was present but the railway crisis had been present for a decade and there was little to suggest that it would be handled in any different way.

And, on paper, 1960 was a good labor year — almost everyone who went into the bargaining arena received more money and more of the frosting on the side, the fringe benefits, and politically, the year was one of the best in a decade for labor — it did well in the British Columbia elections and helped achieve the ideal for the New Party, a victorious candidate in its first contested election.

But, in depth, 1960 was not a good year — it was an ominous 12 months that spelled the end of an era of industrial relations and the end of the traditional and time honored practices and policies of collective bargaining.

This was the start of a period when management proved that it meant exactly what it had said in January — "win back in the sixties what we gave away in the fifties." It is hardly accurate as an economic dictum, but it has become steadfast as a bargaining policy.

Another innovation by management was the new-style bargaining strategy by professional management, which discarded the traditional concept that the union bargaining team was supreme and began to bypass the union itself for a direct appeal to individual employees. This so-called positive approach remained a final offer which the union could take — or strike for very little more.

In two particular instances, Canadian labor learned the hard, cold economic facts of life in the new era.

There was the lengthy Dominion Bridge Co. Ltd. strike, the first nation-wide steel

walkout, where the steelworkers learned that even a strong, well co-ordinated labor group, is crashing a stone wall when it attempts to dent a company determined and dedicated to resist to the bitter end.

In the railway field, the unions learned about a new type of collective bargaining — Government direction — used in Canada for the first time. The decision of Parliament to impose the first peace-time wage freeze meant that labor and management no longer enter lengthy collective bargaining as economic equals but each will be dependent on Government support at the 11th hour to win the contest.

This backs up the repeated and sombre warnings of the United States steel companies a year ago that Government kibitzing is no way to ensure the future of the orderly collective bargaining that is the cornerstone of the new capitalism.

But, in retrospect, the most significant labor trend for Canada came — as usual — from the United States where a company that developed and pioneered the new style of labor relations, General Electric, needed only 21 days to demoralize and defeat a large, powerful and well co-ordinated international union.

These last 12 months also revealed that Canada's labor movement has an extremely soft underbelly and that internal troubles plague it far more than the public or the larger companies realize.

If the outlook was gloomy in the collective bargaining field, labor could take heart from its public image, which slowly but steadily was returning to the high position it held when the 1950's opened.

After all, it was union leaders who had been sounding the alarm about the growing army of the jobless; the inability of the present economy to provide sufficient work for young people entering the work force for the first time; the squeeze that the artificially high standard of living was putting on the average family.

When a prominent labor leader, the Steelworkers Canadian director, William Mahoney, said 1960 was not a year of "union excess but managerial muddling," more than a few thought he might have a point.

Southern Ontario, which had been blasé about the 60-hour work week and low pay of Joey Smallwood's loggers in New-

foundland, awoke to find their own immigrant construction workers were in a worse plight — at least Smallwood's loggers got paid at the end of the week.

Confronted with an aroused public, the Ontario Government calmly looked the other way while seven construction unions pooled their Toronto resources and broke the Labor Relations Law daily with a city-wide strike until they gained recognition as the bargaining agent for the immigrants.

A year ago, the leaders of the strike, Charles Irvine and Bruno Zanini, would have felt the force of the police as well as the power of the courts to impose severe fines for breaking the labor act.

A year ago, labor support was almost the kiss of death for a candidate in Ontario — yet high school teacher Walter Pitman, bearing the standard of a party not yet born, could easily triumph in a Peterborough by-election. Significantly, this was a district of abnormal unemployment.

But the new grace that labor finds in the public eye will provide only the background for the struggle with the new style bargaining policies of management.

Obviously if General Electric can demoralize the International Union of Electrical Workers in the United States, then proportionate companies in Canada can adopt the same technique.

Carried to an extreme, the 1960 style of strategy is being used in St. Thomas, by the Canadian subsidiary of the Timken Roller Bearing Co. Employees are free to see verbatim reports of negotiations (on non-working time); letters to individual employees give condensed reports and a three-lens movie camera records the actions of the picket line.

But the basis of the technique is for management to make a "final offer" as the deadlock enters its familiar phase of the union calling for a strike vote. The difference between the "final offer" of today and those of the past is that management really means final.

The employees are told by letter that this offer is final, with the implication that they can strike until hell freezes over but nothing will be added to sweeten the pot. In turn, this casts an added burden on the union strategists since they have to win something substantial if strike action is taken, or face a membership wanting to

know why the original offer wasn't accepted.

Naturally, such a positive approach to bargaining has its pitfalls, particularly if management cannot hold out and has to give in to union demands. The same loss of face and confidence that could be a telling blow against labor can be equally telling on management.

If the trend toward letter writing continues, some unions are quietly preparing for a propaganda war, where labor will bypass management by writing to minority stockholders, many of whom are more than eager for an issue to battle professional managers.

Although the temporary railway solution did not produce a nation-wide crisis, it has raised some serious labor doubts about the benefits of proceeding with orderly bargaining compared to quick, widely scattered strikes by small groups of employees to win bargaining goals from large companies.

Certainly, no-one welcomed the idea of a nation-wide rail strike, though some publications did wonder aloud just how serious nowadays a rail strike might be.

In the event, the railways were in no position to take a strike and railway workers certainly were not anxious to try and weaken an already uncertain employment picture in their industry.

The railway dispute will certainly be the prelude to the major labor events of 1961, since the 15 non-operating railway unions and their 113,000 members will begin agitating for their recommended increase long before May 15, the date set by Prime Minister Diefenbaker for a renewal of railway bargaining, and the day before they have again agreed to start strike action.

However, there is concern that Government will again dictate a settlement, one that will be far short of the 14 cents recommended by two members of the three-man conciliation board that studied the issues in the bargaining deadlock.

If a freight rate increase for the Canadian National and Canadian Pacific Railways was undesirable in December 1960, there seems little reason why such an increase across the country would be desirable six months later. The Royal Commission studying transportation could suggest many areas where the railways could be allowed to increase rates.

However, almost all of these involve serious political repercussions, even more serious when a Government rapidly approaches the deadline for a general election. For instance, a Government decision to give the railways relief from the archaic turn-of-the-century grain rates would have tremendous impact in Prairie ridings.

There is also the fact that railway employees are an ever-diminishing force, something graphically underlined by fig-

ures that show there were 119,000 non-operating railway employees when present wage talks began in January 1960 and only 113,000 when the wage freeze was imposed by Government decree 12 months later.

The railway impasse is the prelude to a major bargaining year in a time of abnormally high unemployment for most of Canada's manufacturing industries. The last general round of major bargaining in an uncertain economic period was in 1958.

That period saw lengthy strikes in basic steel, base metal mining, commercial and heavy construction, retail distribution, and last minute settlements in automobile manufacturing, farm implements, truck transportation, and the electrical manufacturing industry.

But 1961 has the added difficulty of being the first major bargaining period when unions are more interested in security and job tenure for their members than in wage increases. Of course pay boosts will be at the heart of bargaining, since the trade union policy is that increased consumer spending is the solution to the present recession.

However, the inroads of mechanization, technological progress and automated machinery have made job security the most important issue. The shorter work week is already the key demand in many situations.

Northern Ontario's pulp cutters' dispute may provide a key to management's position since the Lumber and Sawmill Workers Union is asking a 40-hour work week for 13,351 bushworkers to combat the inroads of mechanization. In a seasonal industry like logging, individual workers have often preferred to go for wage increases, hoping to apply the higher hourly pay rates to a maximum of hours during the peak weeks. But this year, the union has made the 40-hour week the main demand and is prepared to stand or fall on this issue, arguing that it has hundreds of one-time members now standing on street corners because they have lost work in an area where there is no secondary industry or service fields to absorb large numbers of unskilled or semi-skilled workers.

Canada's uncertain trade patterns and the impact of unemployment will play key roles in the 1961 negotiations in basic steel, base metals, autos, heavy construction, and the electrical industry.

But, there is one field where there is no uncertainty or possibility of turning back for Canadian labor. This is in the political arena where labor will join with the CCF, a scattering of farm groups and others to found the New Party, probably the only unborn political entity that ever elected a member to Parliament.

Despite some deviations, particularly in some construction unions, there is little

labor opposition to the new party. The craft unions that were expected to buck the party as the brainchild of the industrial unions have been hit the hardest by the new provincial labor laws across Canada. Many of their leaders, and a considerable tide of the rank-and-file, are turning to the new party as the only political grouping that will turn back the clock on labor legislation.

Again, unemployment will be a key factor, particularly since the present loss of jobs is not confined to the seasonal industries. For the first time since the war, there is a prevalent feeling among working people that something drastic has to be done or they will feel the almost inevitable hardship of being out of work.

The same feeling of drastic change permeates the upper echelons of the labor movement in their own field, since there are few defenders of the present structure which seems unable to adapt to an ever-changing industrial scene.

In the highly organized industries — mining, transportation and communications, public utilities, manufacturing and construction fields — the rate of expansion is considerably less than in the unorganized group — trade, finance, services, insurance and real estate.

These unorganized industries have been almost barren ground for unions who are also confronted with the obstacle of attempting to recruit white collar workers, traditionally cooler to unions than men in overalls.

"The problems of organizing white collar workers and women are not wholly new," points out Dr. Eugene Forsey, director of research of the Canadian Labor Congress. "But the scale and urgency of them is new. Until recently, they were not, in general, major concerns."

This is the reasoning behind much of the talk for changing the structure and programs of Canadian labor. Unless labor begins to represent the white collar workers, it will be speaking for an ever dwindling group of Canadians, the manual worker, euphemistically labelled the blue collar employee.

If 1960 was a year of transition, then 1961 will be the year of decision.

The beginning of change can be easily identified in the events of the last 12 months, particularly in the position of management and the role of Government in labor deadlocks.

In its day-to-day operations, Government is becoming an ever increasing part of the labor movement, for the trend in legislation is to open the internal affairs of the union movement to Government inspection and supervision.

Thus the next 12 months are labor's time for decision on the collective bargaining, political, social and public fronts. It cannot remain stationary — it has to move either forward or begin to slide backward.

Ottawa Letter

by Raymond Rodgers

Press and Parliament: Questions

NORMALLY, the only time when the House of Commons, floor and gallery, is packed is the hour from 2.30 to 3.30 in the afternoon — the central feature of the hour being questions "on the orders of the day". Some days this might be renamed questions "on the press of the day". On December 7, for example, more than half of the questions were inspired either directly or indirectly by radio and press reports. Here are a few of them:

Hazen Argue: "I should like to address a question to the Minister of Trade and Commerce. Can he give the house any information about a radio report to the effect that Fidel Castro has announced that a high-pressure delegation is coming to Canada for the purpose of expanding trade with Cuba?"

George Hees: "I did not hear the report over the radio but I heard about the matter. We are always glad to hear of people who wish to trade with Canada. I have heard that this delegation is on the way, but I have heard nothing further."

J. R. Garland: "I wish to direct a question to the Minister of Public Works and ask whether his attention has been drawn to a statement made by Mr. Ashforth, President of the Toronto-Dominion Bank, as reported in today's press to the effect that Canada needs to consider today whether she is not building the wrong kind of houses for the wrong reasons, in the wrong places, designed for the wrong persons, at the wrong time."

Mr. Speaker: "I question the propriety of the hon. member in putting a question of that kind to the minister, because in effect what he is doing is setting out the opinion of someone outside the house — true, it is on a matter of public interest — and asking the minister then to comment on the statement of that person. As I understand it, the minister's responsibility is to answer for his administrative acts here . . ."

D. J. Walker: " . . . I am very happy to have the opportunity of answering it. I have read the remarks attributed by the *Globe and Mail* to Mr. Ashforth . . . I do suggest that he would be well advised to check the facts before making a public statement on the impact of new amendments to the National Housing Act on the industry, the economy and the people of Canada. I suggest further that

Mr. Ashforth is guilty of four major misapprehensions . . ."

Mr. Speaker: " . . . I objected to the question in the first instance because it injected the opinion of someone outside of the house rather than asking for factual information . . . It seems to me that since I did object to the question in that form, perhaps the minister might refrain from dealing with the opinions expressed by Mr. Ashforth and deal only with the supplementary question, which related to his communication with the banks."

D. J. Walker: "The answer is that I have had no consultations with the banks, Mr. Speaker."

Lionel Chevrier: "Mr. Speaker, may I direct a question to the Minister of Transport and ask whether he has seen a statement in the *Winnipeg Free Press* to the effect that although a western Canadian airline had earned a good profit in 1959, it would receive a substantial subsidy from his department. Has the minister any remark to make on that report?"

Leon Balcer: "Mr. Speaker, the honorable member for Laurier was kind enough to send me a copy of this *Winnipeg Free Press* article as I was taking my seat in the house. I have had an opportunity to examine it quickly . . . Although it is

extremely well written and interesting I have not had an opportunity to verify all the figures contained therein, so for the time being I should not like to comment on it."

These questions remind us of the story of a certain Cabinet Minister flying from here to there. Out of a misguided zeal for spreading his patronage amongst all the "competitive private enterprise" airlines, and forswearing the superior service of TCA, he was aloft in a plane served by a rather flippant stewardess. Asking at one point where he was, he received the answer "up in the air". The stewardess made the appropriate remark for a politician. What she did not know was that she had also made the perfect answer to a parliamentary question: brief and shedding no real light on the situation.

And before we go any deeper into the matter we must report British practice as set forth, perhaps somewhat idealistically, by Sir Thomas Erskine May — the great authority on parliamentary procedure. He says that the facts behind a question may be set out briefly if the questioner accepts responsibility for accuracy — and the Speaker has been known to ask for at least casual proof.

In the questions reported above, the only thing Members could guarantee was that they had indeed read or listened to press reports. And the striking thing is that here we have the press talking to the press through the medium of MPs! Douglass Cater, in his *The Fourth Branch of Government*, has something to say about this:

"For the politician and the bureaucrat the headline inch frequently serves as the day-to-day measure of public opinion on a great number of issues. By their responses to this synthetic public opinion



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they stimulate further publicity and so commences a reflexive cycle that has been known to move news stories from the inside to the front page and to reshape policies as surely as if public opinion had exerted its sovereign will."

Cater goes on to point out that many issues have been created by the peculiar pressures and needs of the press — the great monster of them all being the McCarthy hearings: "McCarthyism was an unparalleled demonstration of the publicity system gone wild, feeding on the body politic like a cancerous growth."

Cater shows that government agencies in the U.S. have been able to "conceal and distort issues for the reporters" so that life and death facts about such things as radioactive fallout have been buried in speeches and handouts "too technical to capture public notice until someone like Dr. Ralph Lapp, a scientist-turned-reporter, made the necessary translation."

"Ah", you say, "thank God things like that don't happen in Canada". But can we be so sure? We have almost no specialists-turned-reporters. Many experts aware of bungles in defence and other policy fields may be tongue-tied — either through an inability to write or lack of the right to do so. It is common knowledge, for example, that RCAF aircrews believe our present equipment useless for the job to be done. Here is an opportunity for relentless questioning in the House. It was buried in a namby-pamby question and answer — no wonder, the Conservatives and Liberals both share the blame for whatever mess may exist.

Much safer questions, ones that frequently appeal to the press, are those like that of Hubert Badanai on December 6. He pointed out a privately-owned Canadian hotel distributing a folder stating "We do not accept colored people". He tried to ask the PM if such a solicitation constitutes a violation of the Bill of Rights and "If so, will the Prime Minister inform the House whether he intends to do something about it?"

The Speaker diplomatically disallowed the question, saying that it was in effect asking for the interpretation of a statute and that the questioner "cannot expect to obtain answers to questions of that kind on the orders of the day". The Speaker was being, to say the least, diplomatic, because he was well aware of the fact that Mr. Badanai knew he was not supposed to ask such questions.

Why then did Mr. Badanai ask it? The question, one of no mean significance, is of the type that appeals to the press. Mr. Badanai, like many many MPs, was addressing his remarks to the gallery.

When MPs try to catch the ears of reporters — and thus editors — they do so under the restraining hand of Mr. Speaker. It may very well be that the

scope of questions should be widened, but still, we pray, within the confines of Parliament and not in the room backstairs. Mr. Diefenbaker, striving as he says to maintain the power and dignity of Parliament, would surely agree with these opinions. Yet even he sometimes feels obliged to use the House to carry on a parley with the press.

On December 8, for example, he rose on a question of privilege and said: "I am told that most people, and I belong to that group, often take the substance of an article when they read the headline". He then complained about a headline in the *Globe and Mail* of the day: "Inflow of U.S. Capital Must Be Cut, P.M. Says". Mr. Diefenbaker asserted to the House that "I made no statement at any time in the course of my remarks which would in any way have supported the heading of the first paragraph of the article . . ."

(In fact, due to his dislike of sticking closely to his text, he did indeed say something very close to that.)

Mr. Diefenbaker's intervention reminds us of the situation at the United Nations where there is no exact equivalent of our "question of privilege" but instead the "right of reply". On at least one occasion during the Fourteenth General Assembly the President of that body pointed out to erring delegates that his meant "reply to the previous speaker" rather than "reply to the press".

That speakers feel such reply is necessary is indicative of the excessive importance assigned to the press. Cater is probably right, not only for the U.S. but for all Western democracies, when he says that "We have today what might be called government by publicity".

Our parliamentary Speakers, Roland Michener of the House and Marc Drouin of the Senate — men both well endowed with intellect and physical charm — hold an opinion shared by all responsible politicians in Ottawa: a conscious attempt must continuously be made to focus the attention of the press on the institutions of Parliament.

For the House this presently means a focus on Questions. Many of us have doubts about the efficacy of question time, but as Francis Williams in his *Press, Parliament and People* puts it: "Nevertheless, when all this is said it remains true . . . that question time is from the public point of view one of the most useful of Parliamentary institutions. Questions are asked which do disclose abuses or examples of maladministration and lead to them being put right. The knowledge that any day an MP may get up and ask awkward questions about what the Department is doing acts as a most useful check on bureaucracy". What Williams says about the House in Westminster goes for the House in Ottawa.

More Trouble for a Fragmented Economy

by R. M. Baiden

BY ANY MEANINGFUL measurement, the Canadian economy is in recession. We have unused industrial capacity, unemployed labor and an abundance of lendable money. Interest rates are high, to be sure—but only in relation to the abnormally low rates of the Great Depression era. There is no reason to think, now, that conditions will improve markedly this year. Rather, we may expect many of our difficulties to worsen.

But not necessarily to worsen overall. One of the outstanding characteristics of this recession is that it fragments the economy: some areas of economic activity are severely depressed, others are virtually booming. In mining, for example, nickel production last year was expected to reach a record 200,000 short tons worth \$300 million while iron ore production dropped about 15 per cent from the 1959 record of 21.9 million tons. For another, while much of Canada's manufacturing industry has experienced a tough year, many service industries are booming. Chartered banks, overall, had the best year on record with profit increases ranging to about 20 per cent.

This is a recession laced with statistical anomalies. Our work force, for example, totals more persons than ever before. But by mid-November Canada had more persons unemployed than in any comparable period since the 1930s. Yet unemployment as a percentage of the work force totalled 6.6 compared with De-

pression highs of around 20. Similarly, our Gross National Product will probably register another record high for 1960. But the steel industry, for one example, has been running at only 80 to 90 per cent capacity and the index of industrial production fell from a January high of 173.5 to low of 164.3 by early fall and then recovered only to 167.7 toward year-end.

This is the sort of pattern which we may expect to continue. The economy may well show signs of strengthening early this year but the apparent gains will probably be more than lost by year-end. There is a further complication. Chances are that political obfuscation will play a greater part in confusing an understanding of economic change than it did last year. Certainly this will be the case if the Government decides that time is against it—that things will get worse before they get better—and plumps for an election this year.

Even if there is no election this year, the Government will undoubtedly feel obliged to explain its shortfall in revenues. The magnitude of this failure of revenue to meet expenditure is indicated in the discrepancy between Finance Minister Fleming's predicted six per cent increase in GNP and the probable actual increase of about one per cent.

In 1959, Canada's GNP totalled \$34,593 million. In his budget speech of March 31, 1960, Fleming said:

"On the basis of a projected gross national product of between \$36.5 and \$37 billion for 1960 and in the light of our present information, I have concluded that our present tax structure, with no change in rates, will yield \$5,892 million in 1960-61."

In fact, however, the GNP will probably not exceed \$35,000 million. On this basis, the yield will be in the order of \$5,611 million—some \$281 million short. (In his interim budget, Dec. 20, Finance Minister Fleming forecast a deficit of \$286 million.) In turn, this will call into question the increase in the money supply late last year of some \$400 million over the peak level of 1958-59. The indications are that the increase is inspired more by fiscal requirements than monetary policy. If true, it reflects the Government's intention to meet its needs by the simple expedient of inflating the money supply, by, in effect, creating more money.

The very magnitude of the Government's error calls into question its basic thesis that Canada has been enjoying an economic "boom" at all in recent years. Analysis of quarter-to-quarter changes in GNP over the last decade suggests, rather, that we have been experiencing more of a recession than a boom from 1957 on. In this sense, recession is defined as a marked slowdown in GNP increase rather than an actual decrease, a definition which fits the present situation of unused capacity and unemployed labor.

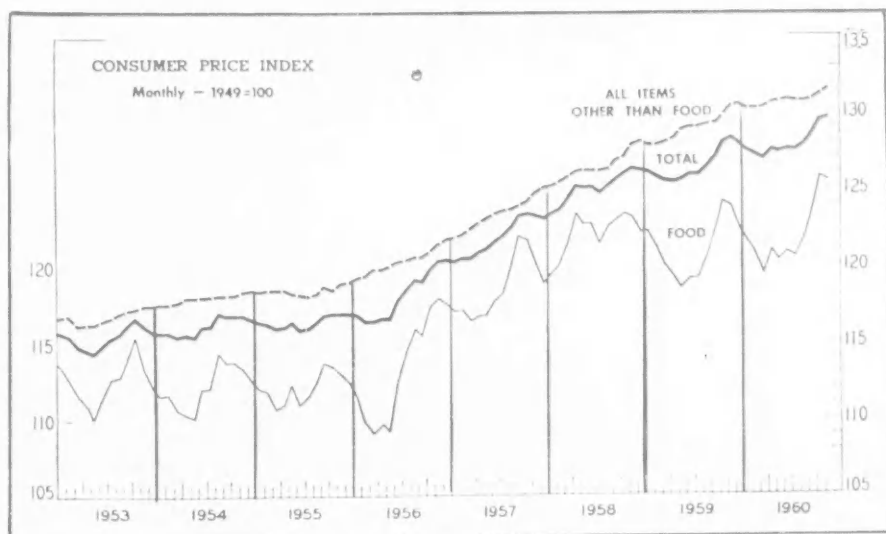
The following table shows the average quarter-to-quarter gains in GNP in each year from 1950 through 1960:

1950	3.5%
1951	3.0%
1952	3.3%
1953	0.5%
1954	0.1%
1955	1.9%
1956	3.2%
1957	0.7%
1958	1.0%
1959	1.4%
1960	0.2%*

* Estimated

It is interesting to note here that the Gordon Commission reported that the falloff from peak to trough in the GNP during the 1953-54 recession was 2.7% (seasonally adjusted). By contrast, the rise in 1959 looks disconcertingly slim.

The following breakdown shows the



Money supply rose sharply in last few months after slight contraction.

EXPORTS OF GOODS ALSO MOVED DOWN IN THE QUARTER WITH IMPORTS OF GOODS SHOWING A SMALLER DECLINE. THE DEFICIT ON MERCHANDISE ACCOUNT WIDENED APPRECIABLY. FIGURES INDICATED ARE BILLIONS OF DOLLARS.



percentage change from quarter to quarter during the same period:

	Quarters (Percent change from previous quarter)			
	I %	II %	III %	IV %
1950	2.3	1.4	5.6	4.8
1951	5.5	4.8	1.4	0.4
1952	8.4	1.5	1.2	2.3
1953	0.5	0.5	1.1	2.3
1954	-2.9	0.3	1.8	1.4
1955	2.7	3.4	2.2	1.5
1956	5.5	2.4	2.1	3.1
1957	-0.1	0.0	1.1	1.8
1958	-0.9	2.0	1.2	1.7
1959	1.7	1.7	0.3	1.9
1960	1.0	-1.6	0.4	1.1*

*Estimated

From these tables it is clear that only

in 1956 did the Canadian economy approach the status of "boom" as we have known it in post-war years. The question, of course, is which condition — 1950 to 1953 or 1957 to 1960 — is likely to be "normal"? Obviously, the Government bet on a return of the earlier pattern of fat increases in GNP. But it didn't materialize; and the probability is that it will not materialize this year. Perhaps the theory of full employment is no longer tenable for Canada; the dicta of the White Paper of 1945 may need revision.

In specific economic sectors there were important developments last year.

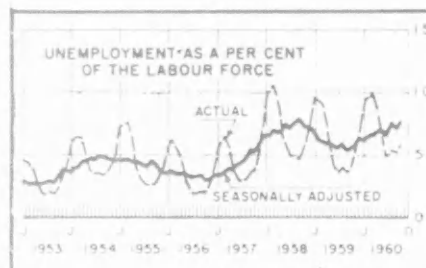
Industrial production which climbed steadily in 1959 reached a peak in 1960 and then declined until late fall when it was about three per cent below the corresponding period in 1959. Most of the

reduction was in durable goods and manufacturing industry and was to a large extent caused by lower spending on appliances and household furnishings. This, in turn, resulted from sharply lower house construction.

Inventory accumulation in early 1960 stimulated production but final demand turned out to be less than expected and liquidation began in the third quarter. With most of the stockpile in durable goods, further liquidation is to be expected. This, of course, will be at the expense of production in 1961.

Canadian grain trade began to feel the effects of the new European trading blocks. This, added to difficulties Canadian wheat growers face under the farm products disposal program of the U.S. (sale for soft currencies and outright gifts), foretell a major re-examination of Canadian agriculture.

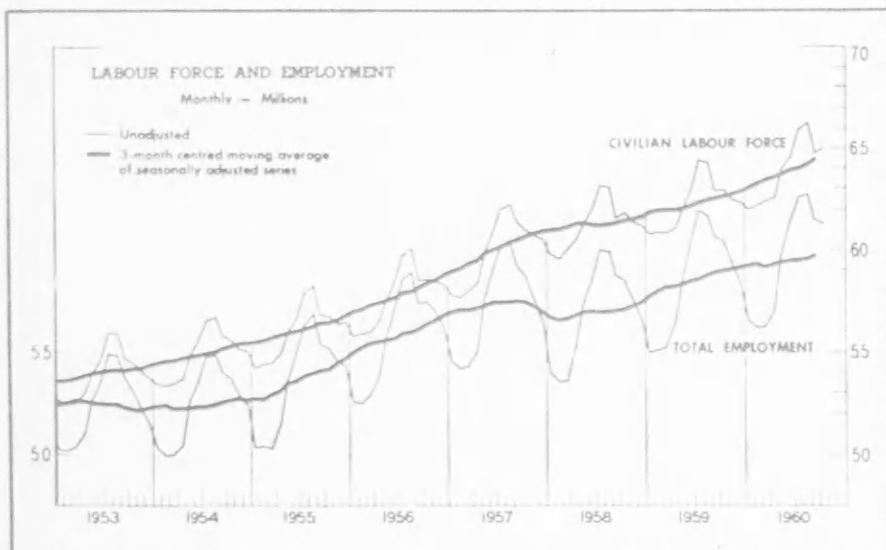
Retail sales barely maintained earlier levels despite a rise in personal incomes. There is reason to believe that there is a marked shift within this category. Consumers are spending more on non-durables which probably reflects a shifting age composition of our population. Increasing numbers of younger people are boosting demand for such commodities as foods, clothing and recreational items. But, because of a slowing in the rate of family



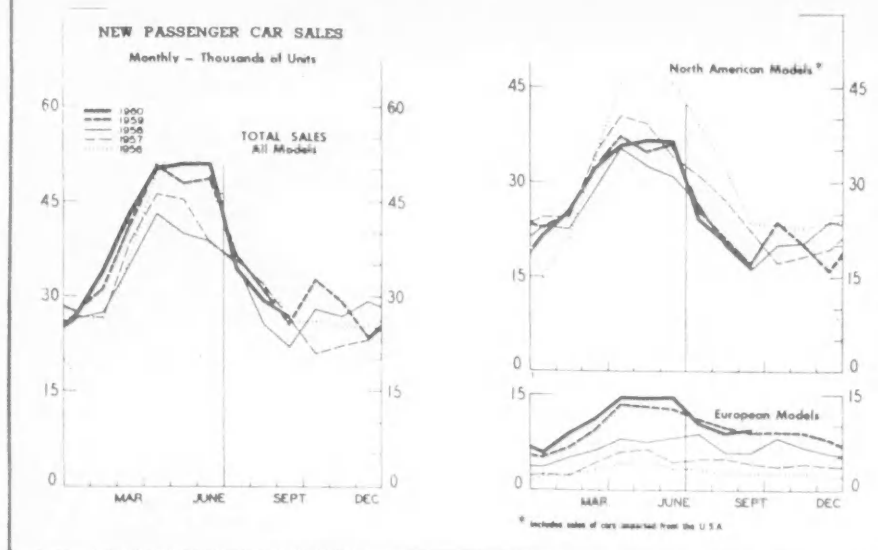
formation as a result of the low birth rate in the decade before the Second World War, markets for many durable goods are decreasing. This, too, is a characteristic which will carry into 1961.

Additionally, there is a growing body of thought that the present load of consumer debt — between 13 per cent and 14 per cent of personal disposable income — is at or quite near the economic limit in terms of mortgaging future earnings. There is no accepted standard of establishing what the ratio between debt and income should be, but it is clear that consumers are displaying a marked reluctance to incur further debt, especially in purchasing durable goods.

It should also be remembered that whereas available statistics show average per capita debt, the evidence is that there is still a substantial body of consumers who prefer not to purchase on credit. The probability is, then, that the consumer debt, averaged among those who have such a debt, is substantially higher than available statistics indicate.



MOTOR VEHICLE STATISTICS



● Capital investment outlays by business for new plant and equipment in 1960 fell below early expectations. Although there is excess capacity in many industries now, others are likely to require additional facilities soon. Demand for such goods as newsprint, petrochemicals and consumer goods will probably rise and this will be bolstered by expansion in such resource-based industries as pipeline construction, natural gas processing facilities and enlarged electric power needs. Overall, however, the general cutback in capital outlays may encourage greater government spending on new social capital — roads, schools, slum clearance, urban redevelopment, parklands and so on.

● In foreign trade, it is probable that final figures will show an overall improvement on our balance of trade on merchandise account. But because of higher payments of interest and dividends to foreigners there will undoubtedly be another large deficit in the balance of payments. Our external debt will grow accordingly. This, unfortunately, is a situation which will probably worsen.

At the end of 1959, net foreign investment in Canada totalled \$15,300 million. Net payments of interest and dividends are now the largest single item in the current accounts deficit. In 1959 they were \$473 million. But during the last decade, foreign investment in Canada has increased 400 per cent while our net dividend and interest payments have increased only 50 per cent in the same period.

The reason, of course, is that much of the investment has been in long-term projects which are not yet fully productive. Also, in some cases, earnings are being reinvested. But the point is that we may reasonably expect our payments of interest and dividends to increase sharply in the years ahead. The gamble

is whether the industries created by the foreign investment will produce earnings abroad to meet the cost of these charges and, perhaps equally important, the cost of our foreign borrowing, which in 1959 reached \$430 million. To date, there is scant indication that it will.

Overall, will these factors, and others, add up to a relatively mild or a severe recession? The odds favor severity.

General Research Associates, the Toronto publishers of *Monthly Business Analysis*, an interpretation of leading, coincident and lagging statistical series (a technique similar to that used by the Dominion Bureau of Statistics) said in their November forecast that there were indications that "the Canadian recession of 1960-61 will be more severe and will last longer than the average cycle of historical record." GRA was one of the first organizations to recognize the current recession and has been one of the most

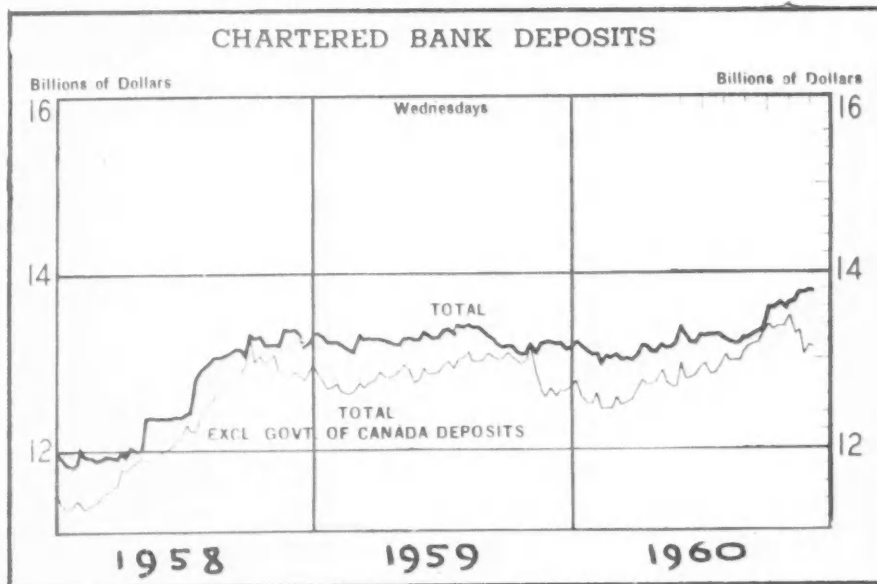
outspoken against unfounded optimism.

The same company said in its December forecast, however, that they note few signs of acceleration in the rate of decline "such as would mark the beginning of the mid-phase of the recession." They then stated that "usually more pronounced declines around the sixth month of the recession are consistent with a more prolonged period of contraction."

The December forecast also stated that leading indicators were "balanced just below the 50 per cent line (where they had been for the three preceding months) but somewhat improved from the low levels of February, March and August." The forecast then said that the sustained revival of one more leader "would tilt the balance in favor of expansion and point toward the end of the current reductions in output and employment."

(Leading indicators are: industrial common stock prices; housing contracts; business, industrial and engineering contracts; average weekly hours worked in manufacturing; corporate profits; new orders for producers of durable goods. Their validity as indicators has been challenged on the grounds that stock prices reflect investor attitudes as well as corporate earning trends; housing is often the instrument of Government policy and non-residential construction is often distorted by government aid. Furthermore, new orders depend upon consumer attitudes and intentions and no account of this factor is taken in the series.)

But the point is, of course, that even if the best hope of GRA is achieved and we return to the economic level of 1958-1959, we will still be far short of the rate of growth necessary to ensure anything approaching full employment and optimum use of manufacturing capacity. The fact is that more ails Canada's economy than a short-run recession.



Tax Incentives Are Needed Now

by H. I. Macdonald

THE YEAR 1960 has been a headline year for discussion of Canadian foreign trade and foreign investment problems; the year 1961 should provide the answers to many of our questions. Foreign policy has rarely provoked widespread excitement among Canadians, while the economic implications of our foreign relations have rarely been widely understood. However, there is evidence that Canadians are now deeply concerned about the price of being Canadian and interest in Canadian-American economic relations has perhaps surpassed the level that preceded the 1957 election.

The furore among the pundits, public and press alike, originated in the renewed Liberal attacks inside and outside the House of Commons on the Government's position, the persistent refrain of James Coyne, governor of the Bank of Canada, that "Canadians are living beyond their means", the open disagreement last spring between Coyne and Gordon Churchill, (then Minister of Trade) and, later in the

year, the apparent rapprochement of Coyne and Finance Minister Fleming. Throughout the year, there was general agreement that Canada's international economic position was deteriorating by any terms of measurement, with an added awareness that the world economy was changing about us and, perhaps, we were going to be left stranded.

The replacement of Churchill by George Hees, which in terms of "public image" substituted energy for complacency, was a significant symptom that the Government was shaken by growing public anxiety. The President-elect of the United States had no monopoly on the slogan that "the country must get moving again".

The warmth and enthusiasm with which the business community met Hees' invitation to assemble in Ottawa last December for consultation with the Trade Commissioners was a sign that exporters were prepared to undertake a full-scale offensive as a means of narrowing our balance-

of-payments deficit, and at the same time boosting production and employment in the export sector of the economy. The Government has responded to a continuing request for export assistance by announcing that it will make credit available for between five and ten years to finance major export transactions abroad exceeding \$250,000 and may guarantee loans of a similar nature to be granted by a new bank finance company for a period of five years or less.

However, at year end, we had made little progress toward improving the fundamental internal weaknesses that contributed to our external malaise [Our Internal Economy Must Come First, SN May 28, 1960]. How could we boost secondary manufacturing and speed the Canadianization of industry without resorting to tariff protection and direct interference by the Government? How long was the premium on the Canadian dollar to persist as a deterrent to exports with such a solid cross-section of opinion insisting that our dollar was over-priced? Was the pre-occupation with inflation blinding economic policy-makers to the malignancy of unemployment?

It is clear that the high level of Canadian long-term interest rates will continue to encourage foreign investment in Canada and borrowing by Canadians abroad, thereby adding to our capital inflow while supporting the dollar premium. It is equally clear that the immediate solution lies in reducing long-term interest rates which are now higher than at any time between 1932 and 1959, and in expanding domestic capital resources. A reduction in foreign capital inflow, by reducing the premium, should stimulate exports and discourage imports; in this manner, our balance-of-payments position would be improved.

An examination of the present pattern of Canadian trade reveals how dependent we are on a few commodity exports of the primary and raw material variety, and how much our trade is linked with the United States. It is also obvious that we are dependent on the cultivation of American goodwill whether we like it or not. Drawing on the last year (1959) for which complete accounts are available, Tables I and II provide a fair description of our heavy deficit position and of the limited scope of our trade.

Yet, at the very time when we wish to

TABLE I

CANADA'S CURRENT INTERNATIONAL TRADE AND PAYMENTS BALANCE WITH MAJOR COUNTRIES AND AREAS (\$ MILLIONS)

	1955	1956	1957	1958	1959
United States.....	-1035	-1639	-1568	-1134	-1215
United Kingdom.....	330	252	138	108	47
Other OEEC countries (1).....	51	50	58	46	-102
TOTAL OEEC.....	381	302	196	154	-55
Rest of Sterling Area (2).....	60	48	9	65	24
All other Countries.....	-104	-77	-61	-179	-183
TOTAL Overseas.....	-44	-29	-52	-105	-159
All Countries.....	-698	-1366	-1424	-1085	-1429

Source: Dominion Bureau of Statistics.

Notes: (1) Other OEEC countries includes all members of the Organization for European Economic Co-operation not also members of the sterling area: namely, Austria, Belgium, Luxembourg, Denmark, France, West Germany, Greece, Italy, Netherlands, Norway, Portugal, Spain, Sweden, Switzerland, and Turkey.

(2) Rest of Sterling Area includes the countries of the Commonwealth, United Kingdom dependencies, and Ireland, Iraq, Iceland, Burma, Libya, and Jordan.

TABLE II
CANADIAN MERCHANDISE EXPORTS AND IMPORTS 1959 (\$ MILLION)

Commodity	Exports		U.S. as		Commodity	Imports		U.S. as	
	Total	% of Total	Total	% of Total		Total	% of Total	Total	% of Total
1. <i>Farm and Fish Products</i>	1090	21	311	29	1. <i>Fuels & Lubricants</i>	510	9	165	32
Wheat and Flour.....	507		15						
2. <i>Forest Products</i>	1511	29	1254	83	2. <i>Industrial Materials</i>	1461	27	1004	69
Soft Wood Lumber.....	301		252		Metals.....	423		287	
Wood Pulp.....	311		254		Textiles, Leather, Furs..	353		181	
Newsprint.....	723		617		Chemicals.....	284		238	
3. <i>Metals and Minerals</i>	1657	33	1071	65	3. <i>Investment Goods</i>	1711	31	1399	82
Iron Ore.....	158		118		Machinery & Parts				
Primary Iron & Steel....	129		104		(incl. Electrical).....	1243		1058	
Aluminium & Products..	232		80		Transport Equipment...	229		179	
Copper, Nickel and					Construction Materials				
Products.....	393		186		(incl. Structural Steel				
Lead, Zinc, & Products..	81		51		and pipe).....	240		162	
Crude Petroleum.....	75		75						
Uranium.....	312		279		4. <i>Consumer Goods</i>	1799	33	1119	62
4. <i>Chemicals & Fertilizers</i> ..	202	4	86	43	Food, Drink & Tobacco	568		274	
					Automobiles & Parts....	456		310	
5. <i>Manufacturers and</i>					Household Durables....	239		166	
<i>Miscellaneous Goods</i> ..	564	11	361	64					
6. <i>Re-exports</i>	119	2	99	83	5. <i>Other</i>	27		23	85
<i>Total</i>	5143	100	3182	61	<i>Total</i>	5508	100	3710	66

Source: Bank of Canada Statistical Summary, Financial Supplement, 1959.

expand and diversify our trade, we find that the world has changed and that it is no longer possible for Canadians to wait for markets to come to them: it is we who must seek out the markets. This realization, accompanied by a new emphasis on selling, is the great event of 1960 in Canada's foreign economic life and should distinguish the 1960's from the 1950's.

Great gains are to be made by manufacturing goods of a type that other nations need and are prepared to buy from us. If we can diversify sufficiently to sell manufactured goods abroad, we may at the same time reduce our extreme dependence on manufactured imports by supplying more for ourselves (Table II). In fact, we are the world's largest buyer of foreign-made fully manufactured goods. The per capita figures for imports of manufactured goods are startling: Canada \$236, the UK \$48, West Germany \$46, and the U.S.A. \$32.

Meanwhile, we have been directing our domestic manufacturing less and less to foreign markets. In 1929, about 7.5 per cent of domestic manufacturing production was exported. By 1939 it was below 7 per cent and, by 1955, just under 6 per cent, with the decline mainly in the

United Kingdom and overseas markets. The main reasons were exchange and import controls and restrictions, plus discrimination of overseas countries against dollar commodities since the end of the war. These conditions are changing dramatically, and we must be prepared to capitalize on the change.

We are, of course, familiar with the Canadian manufacturers' lament that they cannot possibly compete with low-cost countries. However, when we examine our trade statistics, it is remarkable that complaints should be directed at "off-shore competition" when the great bulk of imports originates in the United States. In 1959, we had a trade surplus with Japan of \$37 million and with West Germany of \$5 million.

The explanation is to be found in the composition of the articles imported from the two sources: our American imports and even many of our British imports are complementary to the Canadian economy, compared with imports from other areas. We have simply never attempted to compete strenuously with them. Moreover, as shown in Table II, the American products contribute in large part to industrial activity in Canada. Looked at in another way, we import a much higher propor-

tion of consumer goods from other nations than from the U.S.A.

What, then, are the prospects for greater markets in the United Kingdom and the overseas countries, particularly Western Europe? This will largely be determined by the results of the GATT discussions of the past few months, the effects of the common external tariff about the European Common Market, and the ultimate possibility of wider economic unity in Europe, particularly where the UK is concerned. Our Government has continued to place a good deal of hope in the benevolent wisdom of GATT, for in Churchill's words: "GATT has been and continues to be the major international instrument for the protection of Canadian interests against possible adverse effects of these regional developments in Europe."

However, there is also evidence of much uncertainty over European developments. Churchill commented further: "Politically, Canada has been sympathetic to the broad objectives of European economic integration. We have, however, been conscious that the emergence of two regional groups in Europe could lead to a serious trade split and adversely affect the close trade and economic co-operation which has been

established between the European countries — and between them and their trading partners, including, of course, Canada, and the U.S.A."

A brighter and more imaginative event is the formation of the OECD (Organization for Economic Co-operation and Development) which could well provide a bulwark against the problems of economic growth in the West, as well as a relief to the balance-of-payments difficulties of both Canada and the U.S.A. Is it not reasonable to assume that North America, Western Europe, and perhaps eventually Latin America, could form a new economic community of great strength? It is possible that a trading community or Atlantic alliance of this sort could again restore the triangular pattern of Canadian trade and contribute to the solution of our present trading imbalance.

Meanwhile, four highly topical issues must be considered: first, what will happen to Commonwealth Preference, our historical ally against the tide of trade with the United States, as a result of British participation in the European Free Trade Association; second, what will be the effects of the EFTA on Canadian trade; third, how will the common external tariff about the European Common Market affect our trade; and fourth, what would be the results of a marriage between the UK and the ECM?

On the first point, the economic influence of the Commonwealth appears to be slowly but certainly withering away. In 1937, the average preference margin for the whole Commonwealth was 10 to 12 per cent; by 1948, it had fallen to between 5 and 7 per cent, and in 1957 it was less than 5 per cent. Of course, in a world of high costs such a margin

TABLE III
Canadian Merchandise Trade in 1959
with the European Common Market

	(\$ millions)	
	Canada's Exports	Canada's Imports
West Germany....	129	124
Netherlands	54	29
Belgium and Luxembourg.....	56	45
France.....	43	57
Italy.....	32	37
	\$314	\$292

is not insignificant. A number of causes have contributed to this decline. In particular, the persistence of post-war monetary inflation has reduced the importance of specific duties (direct levies on units of quantity) and, therefore, reduced the effect of the preference margin. Moreover, the general tariff reductions achieved through GATT have brought non-Commonwealth producers closer to the position of their Commonwealth competitors in the United Kingdom market.

We now have the curious possibility that with the projected elimination of tariffs among those countries of the EFTA, Britain might find herself with an anti-Commonwealth tariff on some commodities, ironically described as "reverse preference". At 3 per cent on the average, Canada has less effective preference than any of the other major countries. Australia and New Zealand show 4 per cent, India 7 per cent, and

South Africa 5 per cent. The main bulk of Canadian exports to Britain, wheat and newsprint, are duty-free from any source; however, there is still substantial preference for some vital exports: 14 per cent on chemicals, 13 per cent on wooden goods, and 24 per cent on metal manufactures. Loss of Commonwealth Preference could pose a handicap to my earlier arguments for expanding our exports of manufactured goods to the United Kingdom.

On the second point, effects of the European Free Trade Association, Canada is the only Commonwealth country that should be influenced to any degree by these arrangements, largely because of competition from Scandinavian timber and forest products in the United Kingdom market. Competition will also be increased in certain types of machinery and chemicals. Canadian producers of frozen fish and bacon have protested vigorously already against the UK agreement to import more of these products from Norway and Denmark. However, since the six countries of the EFTA other than the UK take only 2 per cent of Canada's total exports, it should make little appreciable difference to Canadian trade, except for those commodities noted.

To turn to our third consideration, our immediate future in Europe will depend upon the effect of the new Common Market "external tariff". Early this year, we should begin to see the results of the January 1 adoption of the first phase of a 10-15 year program to average the relatively low tariffs of Germany and Benelux with the high tariffs of France and Italy. Of our present exports to the ECM, 25 per cent are destined for the high tariff countries and 75 per cent to the low. About 80 per cent of Canada's total trade with ECM countries (Table III) is concentrated in 25 items, equally divided between agricultural products in one group and forest products, metals, and synthetic rubber in another. Wheat and aluminum are of special significance in these two groups.

It appears that the proportion of Canadian exports to the European Common Market likely to be affected adversely by the new tariff is less than 10 per cent. The absolute value of trade that might be influenced is even smaller, since the ECM is a less important market than the UK, accounting for only 6.2 per cent of our exports compared with 16 per cent in the UK (Tables III and IV). Since the ECM intends maintaining its imports of hard wheat at the current level, using import quotas and levies to curtail imports of soft wheat, our sales should be protected by the unique quality of our wheat.

A high proportion of Canadian raw material exports to the ECM will enter duty-free, including copper, nickel, and iron ore. Other products, notably wood-pulp, lead, and zinc will probably secure duty-



Many British imports such as automobiles compete with our own products.

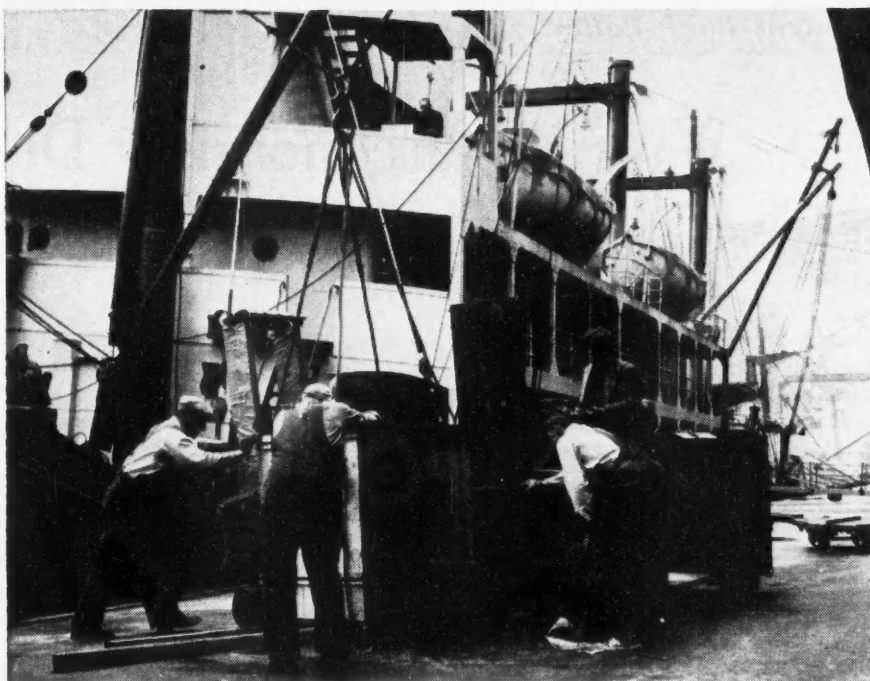
free entry under tariff quotas. Our greatest vulnerability is in aluminum, which may be displaced by metal from Belgian and French Africa and in manufactures such as chemicals, machinery, and aircraft. On the other hand, aluminum commands a huge and very rapidly growing market elsewhere while manufacturers would normally suffer a setback as a result of the growth of internal European productive capacity.

Finally, what of that most lively and controversial issue, the possibility of British participation in the Common Market? Certainly, the choice for Britain is now as much political as economic and her position not unlike that of Canada with respect to the U.S.A.

Fleming is not convinced that European trade arrangements will have no effect on Canada any more than he is prepared to concede that Commonwealth Preference has ceased to have significance for Canadian trade. He allowed his hackles to rise at the Commonwealth Finance Ministers Conference in September when he said that Canada considered Britain's move from Commonwealth to Common Market with the greatest alarm.

With the removal of virtually all dollar restrictions, Canadian exports to the United Kingdom have been rising, with the prospect of 1960 being a record year. This could well reverse the tendency for our current account with the UK to decline as in recent years (Table IV). The market looks particularly promising now for our manufactured goods and, as we have noted, it is in this category of goods that Commonwealth tariff preferences operate most effectively for Canada.

On the other hand, the preferential trading arrangements shared by Commonwealth nations would appear to be less important to the exporting countries concerned than the guarantee of an adequate market in Britain. The British market will remain secure and prosperous only so long as Britain remains prosperous and



Gains are to be made in the manufacture and export of goods nations need.

can afford to buy Canadian products. To secure this prosperity it may be necessary for Britain to throw in her lot with the European Common Market.

Yet, our Government has planted its feet firmly on the rock of opposition to any change in Britain's position, for as Fleming insisted: "I hope the situation won't arise, but any tampering with the advantages that we have in the British market could result in far-reaching examination of the access of British goods to the Canadian market." That is as blunt a threat as could be phrased. At such a time, we might well ponder to what extent Britain's participation in the Common Market would provide Canada with a foothold on European trade.

Whatever the policies adopted in these areas in the future, however, it is our own present responsibility to consider whether we have been giving Canadian industry

and resources a fair chance to compete and whether we should not carefully examine our whole internal economic policy with a view to helping Canadian business to help itself. In addition to the reduction in the long-term rate of interest which I have already suggested, I would urge that assistance be provided by a dramatic revision of the tax structure, which by contributing to greater industrial prosperity, would provide more taxes in the long-run from a wider economic base.

Taxation alternatives could provide not only generally accelerated depreciation allowances for capital expenditures by Canadian secondary industry, but also for greater selection in depreciation allowances, and for income, excise, and sales tax arrangements differentiated with respect to type, location, ownership of the company, and even the time of year. Why not offer special depreciation, excise or sales tax alternatives to companies willing to manufacture items in Canada which would otherwise be imported; for example, automobile or electrical parts? Why not offer such special advantages according to the proportion of manufactured goods sold abroad?

However, I would make an equally strong request for the Government to tackle these problems directly with boldness and imagination rather than continuing its present practice of delaying decisions until a Royal Commission has reported. There are still some areas where policy can best result from acts of political courage without awaiting the providential assurance of a Royal Commission. Let not this Government be remembered entirely for its "government by Royal Commission."

TABLE IV
CANADIAN BALANCE OF INTERNATIONAL
PAYMENTS WITH UNITED KINGDOM

(\$ millions)

	1955	1956	1957	1958	1959	*1960
Merchandise Exports.....	772	818	734	766	781	940
Merchandise Imports.....	406	493	520	537	596	594
Balance on Merchandise Trade....	366	325	214	229	185	346
Balance on other Transactions....	-36	-73	-96	-125	-138	-158
Current Account Balance.....	330	252	118	104	47	188

*1960 figures are estimated on the basis of the figures for the first 10 months of 1960.

Why the Economists Dislike Coyne

by H. C. Eastman

TWENTY-NINE ACADEMIC economists from nine universities in Canada have now signed a letter to the Minister of Finance criticizing the policies and statements of the Governor of the Bank of Canada. The writer is one of the signers.

The Minister is reported to have said in the House of Commons that "the indictment of the bank governor by these professors is sweeping. But the grounds are not so clear. I am left in some doubt about the grounds on which the indictment is made".

It is understandable that the Minister should wish to avoid taking a stand on the matter of his confidence in the management of the central bank at a time not of his own choosing. Both he and the Liberals have in the past denied that the Government of Canada had control of monetary policy. However, it is unlikely that the Minister and his advisers are unaware of the nature of the protests that have been widespread against the policies and pronouncements of the Governor.

The letter criticized the poor quality of the economic reasoning of the Governor, his lack of appreciation of the true state of the Canadian economy, and the unstabilizing effect of the operations of the Bank of Canada in the financial market.

The Governor believes now, though he wrote the opposite in his 1958 Annual Report, that the flow of foreign capital into Canada is a deflationary force which contributes to unemployment. So it is: funds borrowed abroad and used to buy Canadian dollars raise the price of the Canadian dollar in terms of foreign currencies and cause an excess of imports over exports.

If the funds were borrowed in Canada, net imports would not increase and domestic production would expand. It is the Governor's diagnosis of the causes of the inflow of capital with which economists disagree and it is his remedies that they fear.

The Governor believes that Canada imports capital because of a shortage of domestic savings and the Bank of Canada keeps interest rates very high to stimulate the imagined low level of Canadian savings. Not since Lord Keynes wrote in the 1930s have economists thought that the volume of savings is significantly influenced by the rate of interest. They agree rather that it varies with the size of the national income so that the ap-

propriate way to increase savings in Canada, if that is desired, is to increase income.

The central bank could foster such growth by lowering interest rates. Thus, high interest rates hinder savings by lowering income and they also lead firms and local governments to borrow abroad, thus causing the very inflow of capital that the Governor dislikes. Frustrated in his policy by his faulty analysis, the strong-willed Governor now hints at the necessity of directly controlling Canadian borrowing abroad.



Bank's Coyne: Misuse of office?

Opponents of the Governor dislike the infringement of liberty by direct controls, fear the bad effects of controls on economic efficiency, and deny its necessity. If rates of interest were lower, Canadians would borrow more at home and cause an improvement in the rate of exchange. Higher expenditures in Canada would cause a higher level of domestic income. But the Governor fears that lower rates of interest would cause inflation.

His critics contend that the Governor misjudges the true state of the Canadian economy. The position of Canada and the United States is changing in the world economy because of more rapid economic progress elsewhere, especially in Europe, than in North America. The rest of the world is no longer as dependent on our manufactured goods and raw materials as after the war. Thus the opportunities for investment are not as attractive as they were.

The danger of excessive pressure on Canadian productive resources and of inflation is remote. The dominant opinion among Canadian economists today is undoubtedly that the main problem before a winter when possibly twelve or more

out of every hundred members of the labor force will be without work is the problem of unemployment, not of inflation. The duty of the Bank of Canada is plainly, in their opinion, to stimulate income by facilitating borrowing.

The one large field in which investment is still required on a large scale in Canada is for building up our social capital. The interest paid by the borrowing government or firm for expenditures in this field is an important cost and low rates can be expected to stimulate significantly in education, roads and public utilities.

The writers of the letter also complain of the unstabilizing effect of the Bank in the financial market. It is obvious that lenders and borrowers are influenced by the expected course of interest rates as well as by their present level. Bonds issued by the Government of Canada are bought by institutions and individuals because they are usually secure in value.

Yet the Bank of Canada has caused bonds prices to change perversely and unpredictably. The unpredictability stems partly from the perversity, but partly also from the refusal of the Bank of Canada to give the public any indication of its opinion of the proper level of rates. All other major central banks do so.

Consequently, during the past few weeks wide gaps appeared between the prices at which people were willing to buy bonds and others to sell them, revealing the uncertain view of the future of participants in the market. The Governor claims that the difficulties encountered by borrowers are caused by lenders' fear of long-run inflation.

In fact, lenders fear that the reckless intervention of the Bank of Canada will subject them to losses in the short term. It should not be overlooked that the Federal Government is handicapped in selling bonds in a disorganized market as are other borrowers and that Bank policies interfere with the fiscal policy of that government.

The main grounds for the opposition of the twenty-nine signers of the letter, then, are monetary ones. However, the Governor is also criticized by many for using his high office to expound his views so vigorously on the desirability of reducing Canada's foreign trade and the dangers of foreign ownership, which are matters only very remotely related to those for which he is responsible.

Needed: Easier Money Lower Interest

by A. N. McLeod

MONETARY POLICY is not determined in isolation, it is determined in response to actual or expected developments in economic conditions. Furthermore it is only a part, though an important part, of the total policy response to those developments. This response also includes fiscal policy, exchange rate policy, and specific policies for specific objectives either in conjunction with or independent of the more general policy framework.

In reviewing the background of monetary policy in Canada, therefore, the first thing to do is to look briefly at the economic events of the last few years. If we look back to 1956 and 1957 we find a distinct break about that time in the post-war growth trend of many economic indicators.

Most of these indicators showed encouraging recovery before the end of 1958, which carried over into 1959, but they did not really regain their former strength. For example, the seasonally adjusted figure for unemployment has never been significantly below $5\frac{1}{2}\%$ since August 1957. In 1960, Gross National Product and other major indicators have again flattened out or turned downwards; exports are perhaps the major exception.

It is becoming increasingly clear that we are going through something more than just the usual business cycle. Unquestionably a major factor is the need for the North American economy to adapt itself to the recovery of Europe and other overseas countries. It is difficult, and perhaps unnecessary, to put a precise date to the completion of the recovery of these overseas economies, but it certainly antedated the successful establishment of third-party convertibility for the major European currencies at the end of 1958.

It appears, then, that North America has been in the midst of a structural readjustment in the economy for perhaps as long as three or four years. It also seems clear that we have some way to go before the process will be completed. At the same time I think it is important to recognise that we are making significant progress, perhaps better progress than may be immediately apparent.

Just to quote one example, a year ago many observers were bemoaning Canada's inability to expand exports to European and overseas markets, and were openly expressing the fear that Canadian production was now priced out of all but the

high-cost North American market. In 1960, however, the increase in exports is entirely accounted for by sales in these very overseas markets.

The reaction of government economic policies to these events has been perhaps something less than perfect, but on the whole it has been in the right direction and of adequate scope and flexibility. The onset of recession in 1957 was met with substantial fiscal measures in the form of tax reductions and increases in expenditure.

Critics may complain that these measures were to some extent undertaken for reasons that were unrelated to the recession, or that they were imperfect in this or that detail, or that the resultant deficit was larger than necessary, but the fact remains that the economy was given strong support when it needed it. As recovery got under way in 1958 and 1959 the Government moved towards a balanced budget.

At the start of 1960 government spokesmen were vigorously facing the challenge of inflation and asserting their intention of combatting it. By the time of the Budget on March 31, the Minister of Finance was able to anticipate a small surplus for the new fiscal year beginning the next day, and only moderate borrowing requirements for non-budgetary purposes. As the year wore on and it became apparent that the economy was levelling off, the Government's policies changed in a number of respects.

A somewhat extended winter employment program was announced for 1960-61. Government aid to housing, which had been substantially reduced, was again increased. Parliament was called into session somewhat earlier than has been customary in recent years. While not in any sense an emergency session, it is being asked to deal with a number of measures designed to reduce unemployment and stimulate renewed economic growth.

A supplementary budget is to be presented, the details of which will be known by the time this article is read. (See page 4.) It is already pretty clear, however, that the surplus foreseen in March will now be turned into a deficit, partly by the operation of automatic stabilisers and partly by subsequent policy decisions.

After expanding substantially for several years, the money supply (notes, coin,

and checking deposits in the chartered banks) was held virtually stable from late in 1955 until nearly the end of 1957. With the onset of recession in the latter year some expansion was permitted. Between the spring and fall of 1958 an even more substantial increase occurred, associated with severe weakness in the Government bond market in the face of heavy Government borrowing needs.

This situation was eventually righted by a group of measures which included the famous Conversion Loan and a substantial expansion of bank credit; after that the Government was able to meet its borrowing needs by selling securities to the general public, and the money supply was relatively stable from September 1958 until September 1960.

Indeed, from about August 1959 to March 1960, the money supply was actually declining, for reasons that grew out of an unprecedented rise in bank loan demand which began early in 1959 and was not brought to an end until recourse by the Bank of Canada to rather heavy-handed measures in August of that year.

Since the end of September the money supply has been allowed to increase by about 3 per cent, considerably more than seasonal factors would explain. This may be the result of entirely voluntary actions on the part of the Bank of Canada, designed to promote recovery, but there are some ominous signs reminiscent of 1958 which suggest that it may be in part an involuntary response brought about by the need to accommodate Government financing.

For example, the public has lately been showing a persistent reluctance to buy Government issues even at today's relatively high yields. However, some renewed buying was evident in the first half of December.

These events were accompanied by rather violent swings in bond prices, and in interest rates and bond yields, especially between 1955 and 1959. Without going into a detailed analysis it may be said that these fluctuations were due to a combination of three factors:

(1) the normal cyclical pattern of interest rates, reinforced by monetary policy, with relatively high rates in the boom and relatively low rates in the recession;

(2) an upward adjustment of the entire interest-rate structure from a range appropriate to the depressed 1930's to a

range more appropriate to the capital-hungry 1950's, long overdue but delayed for various reasons;

(3) psychological influences, particularly a growing reaction against persistent price rises, which made investors distrustful of fixed-interest securities.* However, yields on bonds of various maturities reached their peaks between August 1959 and early 1960. Thereafter they declined until September 1960, since when they have been rising again.

This leads us to the outlook for 1961, and to the policy problems we face. Undoubtedly the most important one is to restore the economy to a healthy rate of growth, in order to provide full employment for a rapidly growing population and to ensure that our potential productive capacity makes a maximum contribution to our standard of living.

But there are also other problems, not covered in what has been said so far, that have raised considerable debate. For example, the question of Canadian ownership and control of Canadian industries and resources has attracted much attention, though it appears to lie largely outside the influence of monetary policy.

Another set of problems relates to the

*For a fuller discussion see the author's "What Management Should Know About Interest Rates", *The Business Quarterly* (University of Western Ontario), Spring 1960, Volume XXV, No. 1. Reprints are available on request.

capital inflow into Canada and the equally high deficit in the current account of the balance of payments. These two problems are really one, for the only way that capital can really be brought into Canada is in the form of goods and services from abroad. The cause of the capital inflow is the fact that capital investment in Canada continues to exceed the flow of Canadian saving available to finance it, so the difference has to be made up from abroad.

Then there is the problem of the poorer relationship between the central bank and the Government. It is pretty generally accepted that the central bank ought to be free of direct political control in its day-to-day operations, but it is equally generally accepted that its policies must in the end be in harmony with the broader economic policies of the Government. There is at least a partial conflict between these two principles, which greatly complicates the effective coordination of monetary policy with other economic policies.

To put it most simply, monetary and fiscal policies are designed to keep the rate of saving in balance with the demand for capital funds to spend, in order to maintain a smooth and continuous flow of the spending stream that is the lifeblood of all economic activity. Monetary policy operates by making money cheap and plentiful when saving tends to exceed capital demand, expensive and scarce in the contrary situation, thus encouraging or discouraging private spending.

Fiscal policy operates by deliberately creating deficits or surpluses in the Government accounts, so the Government replaces private borrowers in demanding capital funds during a recession, and supplements private sources as a supplier of capital in a boom. But perhaps we have come to expect too much in the way of miracles from these techniques. Powerful and useful as they are, they do have their limitations.

An important limitation of both monetary policy and fiscal policy lies in the fact that they require a substantial degree of public understanding and acceptance. While the general public in Canada has learned a lot about these matters in recent years, it seems clear that there is much to be done.

There is need for considerably more technical debate and discussion among economists to clarify their own thinking on the matter, and there is need for a great deal of public education. Furthermore, it is important that this debate should maintain a high standard of technical competence, because ill-balanced criticisms or arguments may do considerable harm and may detract from more constructive criticisms.

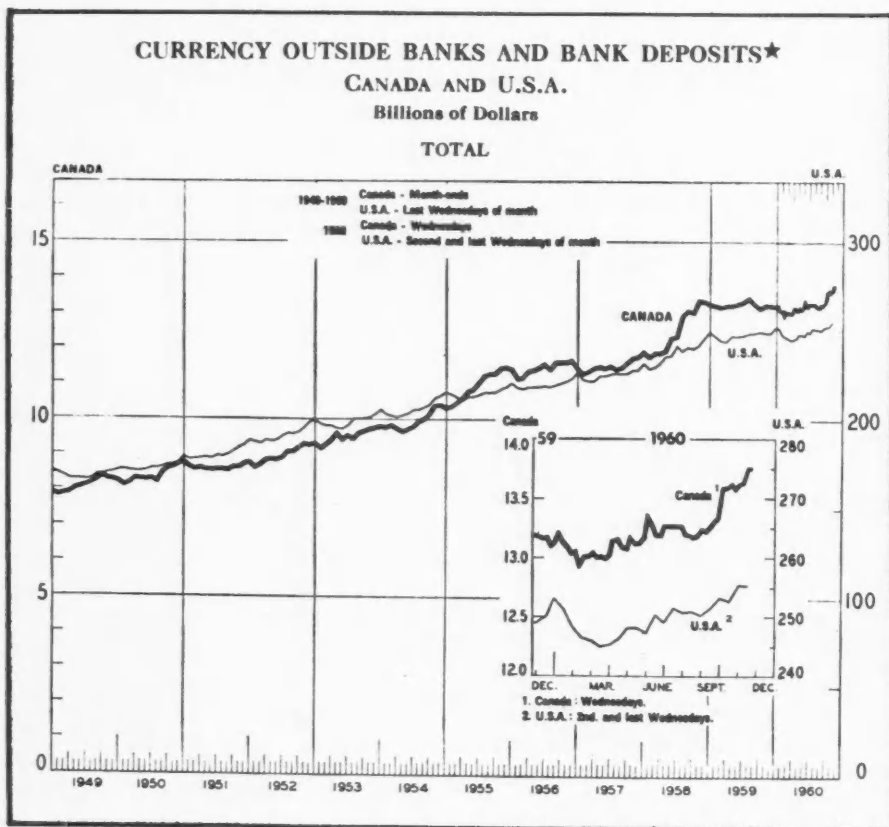
Of course it must be admitted that there is some justification for the public's confusion on these issues, for there are many complications in the way the general principles work out. Even many experts seem to have overlooked the fact that the effects of fiscal policy on interest rates are opposite to those of monetary policy.

Monetary policy tends to accentuate the natural swing of interest rates over the business cycle, or at most to shift the timing a little. Fiscal policy on the other hand tends to eliminate the swings, for it means that government demand for capital funds comes into the market when private demand falls off.

It is widely recognized that monetary policy is much more effective in controlling a boom than in stimulating recovery from a recession. Easy and cheap money may not stimulate business or private spending if there is uncertainty about future prospects.

In an open economy such as Canada's, heavily dependent on world trade, both fiscal and monetary policies are additionally hampered in a variety of ways by factors beyond our control. An important example is the fact that interest rates in Canada cannot get far out of line with those in major foreign capital markets, for if they do they will set off destabilising shifts in capital movements, especially now that the major European currencies are effectively convertible.

Paradoxically, while public understanding of monetary policy is necessary to its successful use, as already noted, at the same time it may lead the public into actions that in fact make it more difficult



for the authorities to implement a given monetary policy. By now the general public has heard quite a bit about monetary policy.

Both institutional and private investors are ready to draw their own conclusions about what this policy is likely to be in a given economic situation, and what effect it will have on prices of bonds and other securities. This sort of grandstand quarterbacking of Bank of Canada policy has undoubtedly been a factor in the exaggerated movements of bond prices and interest rates in the last few years, and will probably continue to have destabilising effects on securities markets.

It is clear that monetary policy by itself cannot be of much direct assistance in the structural readjustments the economy is having to carry out in order to regain full employment and sound growth. It is not basically a question of insufficient effective demand, for the rate of Canadian investment still exceeds the rate of Canadian saving even though there are idle plants and unemployed workers.

Rather, it is a question of competing more effectively for a larger share of the spending being done by those, whether in Canada or abroad, who have money to spend. Success in this endeavor will generate additional income by channelling more of the "re-spending effect" into the Canadian productive process, because a smaller portion of each dollar spent in Canada will leak away as payments to foreigners.*

It has already been noted that the net capital inflow into Canada and the associated deficit in the current account of the balance of payments are brought about by the fact that the rate of Canadian investment continues to exceed the rate of Canadian saving. It therefore follows that the capital inflow cannot be ended except by means that directly or indirectly bring Canadian saving and investment into balance.

Furthermore, it would not do to simply increase saving or reduce investment, for that would release deflationary pressures by curtailing the domestic spending stream, and would thus add to unemployment. Monetary policy offers little direct assistance here either.

Indeed, under present conditions there is very real danger that the over-vigorous use of monetary policy would in fact produce perverse effects. In other words, a substantial increase in the money supply might easily have the effect of increasing interest rates instead of decreasing them, because it might raise fears of an eventual renewal of inflation. Even if these fears were unjustified, the result might be to

*In technical language, it will generate a greater induced expansion of income from the same multiplicand by increasing the multiplier.

frighten investors so that they would be unwilling to lend money except at interest rates they deemed adequate to compensate them for the expected decrease in the purchasing power of their money.

It would be quite incorrect, however, to jump to the conclusion that all these limitations make monetary policy entirely useless. Quite the contrary: an appropriate monetary policy can be very effective, and indeed is essential, in providing a suitably buoyant climate in which the necessary economic adjustments can take place free of unwarranted deflationary pressures. This, however, underlines the fact that monetary policy must be well coordinated with fiscal policy, and that both must be coordinated with other aspects of economic policy.

Looking back over the last few years it would surely be a generous critic who would absolve the Bank of Canada from all blame for what has happened. But certainly others must share the responsibility — Government policy has not been above criticism either, and the public's short-sightedness has also been a factor. In extenuation, however, it must be acknowledged that the reactivation of monetary policy after a long period of virtual disuse has faced the authorities and the public alike with unfamiliar problems.

It is surely to be hoped that the authorities will find it possible to permit a gradual further easing of the money supply in the weeks and months to come, even on top of the rather substantial rise that has already occurred since the end of September. This ought to help in moderating the pressure on the bond market and in stabilising interest rates.

At the very least it ought to be possible to reduce the differential between Canadian interest rates and U.S. interest rates to a minimum. Among other things this ought to bring some easing of the Canadian exchange rate, which offers one of the most promising avenues for making Canadian industry more competitive with foreign producers, though undoubtedly additional action by the Government will be required to bring about any substantial change here.

Finally, the extent and bitterness of the present controversy over monetary policy amply underlines the need for major efforts to extend our thinking on these matters and to educate the public about them.

The Radcliffe Committee has recently reported in Britain and a similar investigation has long been advocated in the U.S.A. Lacking an official enquiry, the Committee for Economic Development has commissioned a competent private study of these matters which should be completed soon. In Canada voices have already been raised asking for an authoritative enquiry of a like nature, and the logic of events suggests that it is more than due.



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Name

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City Prov.

Chess

by D. M. LeDain

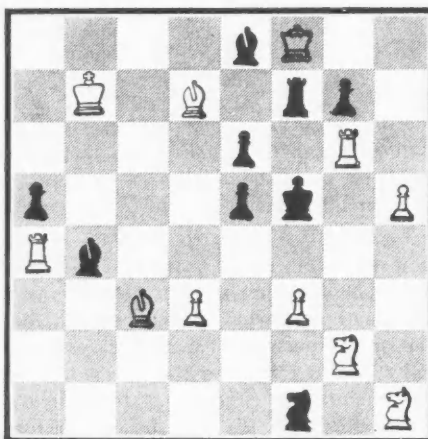
WORLD CHAMPION Mikhail Tal, in a recent interview, has offered this advice to the rank-and-file chessplayer: "The most important thing for every player ambitious to improve is to seek his own style. To do so, one has to make a thorough study of the chess legacy and digest it critically. In this respect it is similar to literary research and literary art."

White: W. Unzicker, Black: M. Tal (W. Germany vs USSR Team Match, Hamburg, 1960).

1.P-K4, P-K4; 2.Kt-KB3, Kt-QB3; 3.B-Kt5, P-QR3; 4.B-R4, Kt-B3; 5.Castles, B-K2; 6.R-K1, P-QKt4; 7.B-Kt3, Castles; 8.P-B3, P-Q3; 9.P-KR3, Kt-Kt1; 10.P-Q4, QKt-Q2; 11.QKt-Q2, B-Kt2; 12.B-B2, R-K1; 13. Kt-B1, B-KB1; 14.Kt-Kt3, P-Kt3; 15. P-Kt3, B-Kt2; 16.P-Q5, Kt-Kt3; 17.Q-K2, P-B3!; 18.P-B4, BPxP; 19.BPxQP, KKtx QP!; 20.PxKt, P-K5; 21.KtxP, BxR; 22. B-Kt5, P-B3; 23.B-K3, KtxP!; 24.RxB, KtxB!; 25.QxKt, BxKt; 26.BxB, P-Q4; 27.Resigns.

Saturday Night

Problem No. 261, by J. M. Rice, (1st Prize, "Amer.Ch.Bulletin", 1959)
White mates in two moves. (11+9)



Puzzler

by J. A. H. Hunter

"THAT'S A FINE price tag!" George laughed, holding up the bag. "You can see the ninety-seven cents all right, but there's just a blob for the dollars."

Tom grinned. "Good business," he replied. "Gives me a chance to fit the price to the customer."

"For free for me, then! Seriously, what is the proper price?"

"Okay, I'll be serious," chuckled the old man. "My percentage profit on what it cost me is exactly one seventh of what that bag cost me in cents."

George thought a moment. "I see what you mean, but I still don't know what you paid for it."

"Well under twenty bucks," Tom told him. "And no fraction of a cent at that."

That's the way he treats friends, but then he never looks upon them as customers. What was the proper price?

(143)

Answer on page 36.

Laugh This Off!

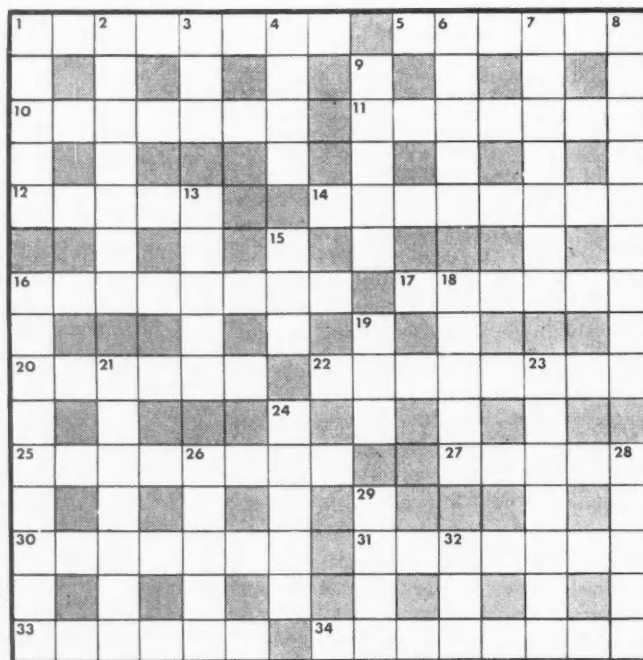
by Louis and Dorothy Crerar

ACROSS

1. See 5
5. 1. They may send one into convulsions, it seems. (4, 2, 8)
10. Yet bile, sir, could make you inclined to laugh. (7)
11. Conrad's short story came as quite a blow to some seamen, no doubt. (7)
12. Its 1A is beastly. (5)
14. A boatman at the "Y" seems to be attached to the kitchen. (8)
16. How the little bird laughed! (8)
17. How Nero fiddled as the fire got hotter? (6)
20. Shakespeare's was full of errors! (6)
22. A Beat getting D.T.'s shows his! (3, 5)
25. 9. Farm animals who see the joke? (8, 5)
27. 15. On which Spooner found Beth dead? (5-3)
30. Could be instead, instead. (7)
31. Beheading your mother-in-law, for example, might leave you in this pleasant state. (7)
33. Yet it's surprising that old established firms always start as this. (6)
34. 19. Did Alice bid it "Wipe that face off your grin!" (8, 3)

DOWN

1. Almost all architects hold this tree to be one of the toughest. (5)
2. The "new broom" wasn't applicable to this room. (7)
3. Nob's companionable companion. (3)
4. Yet if this were broken up it would still hold water. (4)
6. Member of Parliament caught in a bad lie. (5)
7. But those inside don't lessen the drought outside. (7)
8. Did chewing on this send Fido into 5, 1A? (5, 4)
9. See 25.
13. One should, when named incorrectly. (5)
15. See 27.
16. 27. So happy to die this way? (7, 2, 5)
18. Estimated too highly if over this. (5)
19. See 34.
21. R.C.P. What's missing? (7)
23. His law I change to suit the Bantu, so to speak. (7)
24. What the unemployed are not. (2, 3)
26. They're supposed to be numbered, but who wants to count them! (5)
28. So much turns on this, as a matter of principle. (5)
29. I? Quiet! I'm on the network! (4)
32. Jack, you're stupid to take this. (3)



(510)

WINNERS AND RESULTS

Of the SN Christmas Competitions
Will be published in the Issue of

FEBRUARY 4, 1961

Books

by Arnold Edinborough



Packard: Collector of prejudices?

VANCE PACKARD must have been frightened by an advertising man at a very early age. Only some such traumatic experience could account for the screaming, foot-stamping tone of his new book *The Waste Makers*. There is nothing sinister, anti-social, demoralizing or anti-American which he doesn't lay at the door of the advertising man.

It is a pity that he is so hysterical, because the idea of the book is a good one and many of the examples of business methods which he outlines are disturbing. But he spoils his thesis by overstating his case and by mingling unsupported hearsay evidence with accurate and well-documented criticism.

The "developing dilemma" of the United States is, according to Packard, that its factories now produce more than the consuming public can readily absorb. The result of such over-production means workers laid off; workers laid off means less purchasing power; less purchasing power means even more goods in stock, fewer sales and, of course, more lay-offs.

Packard is convinced that this vicious circle has been attacked only by unethical advertising and by the saturation of the public mind with sales messages, not by any consideration of new directions for production.

As a further example of the malevolence of manufacturers he points out that the goods now advertised are less durable, less efficient and with a shorter life than those which used to sell on their own merits when natural demand was much higher.

He argues, and in some places convincingly, that this dilution of product quality has been deliberately planned and that the whole of American life is based on waste or gluttony.

Now this idea is not new. Veblen stated

it philosophically and definitively 60 years ago. But Packard obviously thinks that he is the first to notice it.

The appalling result to Packard of this over-production and over-consumption is the rapid disappearance of America's natural resources. He quotes the Mesabi iron ore deposits as one example of exhaustion of what had previously been thought inexhaustible deposits. He is convinced that most fossil fuels will soon be equally dangerously depleted and he gives a grim picture of the ever-lowering water tables in some parts of the United States. But in the course of describing this latter depletion he says "most of the towns in Western New York State have a chronic water problem and tens of thousands of residents regularly pay one dollar for a five gallon jug of cooking and drinking water".

I would like to see facts and figures to prove this astonishing contention for, like many of his wild statements, it clashes badly with yet another remark later in the book. Talking about the distillation of fresh water from sea water he says that "the Director of the Office of Saline Water is now confident that the office can produce 1,000 gallons of water for one dollar."

If both of these statements are true it seems remarkable to me that the Office of Saline Water has not gone into business in Western New York. But such inconsistencies are nothing to Packard. He is convinced that we are all going to hell in a basket and to stop for mere documentation of our progress is only annoying.

Open *The Waste Makers* at any page and we have the unqualified, unsupported statement in amongst properly documented examples. Such phrases abound as "in the early '50's many models developed mottled looks . . ." (cars, this is, not people) or "a multitude of rugs being sold were far from being 'good' . . ." or "some paperback book publishers have begun accepting paid advertisements in their books". One is constantly saying: Name one!

Perhaps the most telling example of Packard's method is in a paragraph about

radios: "The Radio Advertising Bureau reports—with a note of triumph—that 40 per cent of all American groups going on outings to beaches, parks and picnic areas now take along a portable radio. The figure would have been even higher, I suspect, if the study had been confined to young people". Packard seems to imply by this latter statement that a specific sample can often give you the information you desire, even if that information is thereby distorted.

Again, he is always relying on such gimmicks as "somebody in Long Island told me" or "a parent in Ohio said" or "officials of an Eastern college inform me" to put his point across.

It follows that his judgment and sometimes his flat statements are wild to a degree. Take this gem: "Think of any important serious book in the past year. You will not find a single copy of it anywhere in most of the counties of the United States, according to an estimate by the American Book Publishers Council."

I don't deny the real seriousness of many of Packard's charges, however. What he has to say about automobile style changes, about fashion in women's and men's clothes and an increasing tendency on the part of the manufacturers to over-produce and over-sell is very much to the point. And some of his documented evidence is so shocking that he need never have relied on hearsay at all.

But Packard is a sensational writer and a superficial one. This shows in his last section where he says what the Americans should do to fight the present trend of his society. Believe it or not, it is to read more, to develop "a private world of creativity" (Packard suggests that a "flower arrangement, an illuminated scroll, a poem, a painting" in Japanese style might be the basis for this creativity) and even to walk about "the older New England villages."

Stripped to its essentials *The Waste Makers* thus appears to be merely a collection of prejudices in favor of

SALE...



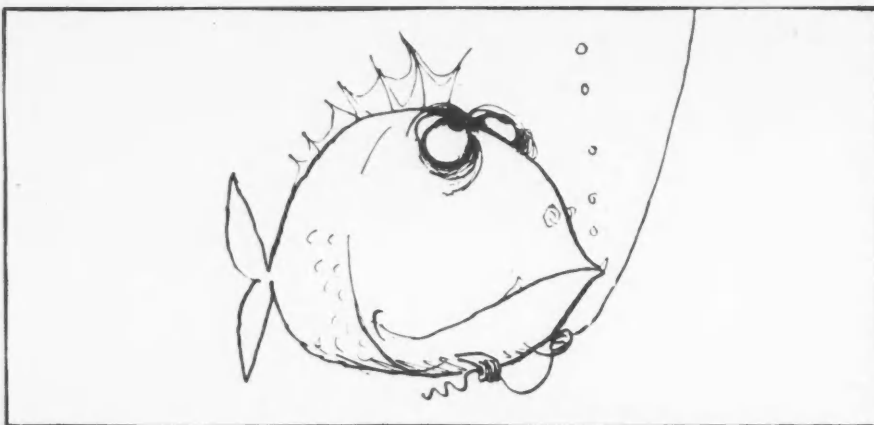
of dreams!

No furs are more elegant and dreamy than those from Jean Courtot. That is common knowledge. And now that it is SALE time dreams are coming true! Jean Courtot's furs have never been lovelier, yet his prices have *never been lower*. Now, if you can afford to dream, you can also afford a Jean Courtot fur. Quickly! Can you make it *today*?

LONDON  NEW YORK

Jean Courtot

72 - 74 Bloor St. West, Toronto



YOU SHOULD HAVE SEEN THE ONE THAT GOT AWAY

In the beginning it was a question of who ate whom. For a while it must have been touch and go whether man went fishing or fish went manning. Looking around today we assume that man won out.

At first man competed with earth's other creatures—today men compete with other men to develop nature's energy sources. In the process our stand-

ard of living has sky-rocketed.

Competition has helped Canadians achieve one of the world's highest living standards. Take the way it works in the oil business—Imperial Oil and hundreds of other companies compete to supply Canadians with oil. As a result, oil is available at reasonable prices wherever it is needed—and Canadians have turned to oil for more than half their energy needs.



IMPERIAL OIL LIMITED

...for 80 years Canada's leading supplier of energy

Thoreau and against Henry Ford.

In at least one thing, however, Packard is correct—the extreme gullibility of the American public. How else could such an uneven, ill-written book get to the top of the best seller list?

The Waste Makers by Vance Packard—*Musson*—\$4.50.

Western Men of Letters

"ONE MAY SAY, though without laying it down as a rule, that the need to express oneself in writing springs from a maladjustment to life," writes Andre Maurois in the introduction to his latest book of essays *The Art of Writing*.

The point is at least debatable. "The stars will not forget me," Wolfgang Goethe said confidently at the age of six; and throughout his life he continued to act under the guidance of his inner daemon. So, to a greater or less extent, did most of the writers whom Maurois discusses here. Each had his own restless, familiar spirit which not only directed the course his talent should take but in many cases supplied the maladjustment.

The group discussed here includes Voltaire, Rousseau, Stendhal, Balzac, Flaubert, Proust, Goethe, Leopardi, Tolstoy, Tchekov, Gogol and Turgenev. The author reveals these great figures in terms of both their lives and the literature they created; and since he is a skilful commentator this survey of the Western Man in literature makes stimulating reading.

It is not entirely satisfactory however. M. Maurois sees his subjects steadily and often luminously, but he doesn't invariably see them whole; and while his approach can be applied successfully to Jean-Jacques Rousseau, whose *Confessions* is a summing-up of both the man and his work, it is inadequate for the treatment of Tolstoy, discussed here in a short essay on *Married Happiness* and *The Kreutzer Sonata*. Whatever his maladjustments, the author of *War and Peace* was something more than a self-tortured sensualist.

As critic, M. Maurois is at his best in the familiar world of the French imagination. Possibly this is why the Russian, Italian and German writers are dealt with largely in terms of biography, a field in which the author has long been internationally at home.

"A biographer should give us the faithful picture of a human being on his way through life," he points out in his introduction. The biography here is both factual and evocative. If the pictures M. Maurois presents are faithful it is because the author feels no need to enhance human figures that are already more than life-size. M.L.R.

The Art of Writing, by Andre Maurois—*British Book Service*—\$4.25.



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Great new way to go places!***

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Built by Vickers...powered by Rolls-Royce



Early in '61, you will see TCA's majestic Vanguard in Canadian skies. You'll want to travel in it, looking out and down through the great wide-view oval windows...cruising serenely at seven miles a minute...enjoying breakfast, lunch or dinner, whether you take a comfortable Economy or a luxurious First Class trip... But why

just wish! TCA is getting 23 of the big, 96-passenger planes. As they are being delivered, they'll be placed into service on all major TCA routes from coast to coast in Canada; they'll take you to the U.S., and south to Tampa (Florida), Bermuda, Nassau and the West Indies — and you'll be able to see it all when you go TCA VANGUARD.

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TRANS-CANADA AIR LINES  **AIR CANADA**

Gold & Dross



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Silver 5-sol and 15-sol pieces were struck in 1670 by Louis XIV

of France for his colonies in North America. The 15-sol piece has become one of the rarest of all Canadian coins—and today is worth about \$600.

Canada's First Real Money

Canada's first real money, in the form of bank notes, was issued by the Bank of Montreal—Canada's first bank—when it opened its doors for business on November 3, 1817. Later, the bank provided copper coinage. With the passing of the Currency Act in 1841, B of M coins became recognized legal tender of Canada.



BANK OF MONTREAL
Canada's First Bank

SD-276

Blue Chips & Others

You mention some blue chips in answering an enquiry seeking advice about investing in dividend-paying stocks with prospects of application. But you fail to mention CPR or Massey-Ferguson, which appear to me to be underpriced and paying good dividends. What do you think of them? And what do you think of Wilroy as a speculation?—D.P., Estevan, Sask.

Although CPR earnings are covering the \$1.50 dividend by a decreasing margin, there appears to be sufficient residual dividend-paying ability for the issue to rate as a blue chip. Value is good, and over the longer term could reflect in higher quotations. The appeal of the issue is in its representation of an interesting cross section of the economy.

Massey-Ferguson is a cyclical industry, and sentiment has greatly declined. This could be the low point of the cycle although it would take a very bold commentator to predict the time of an upturn. Massey as a speculative investment—yes. As a blue chip—no.

Wilroy is a mixed-metals (largely zinc) producer. The speculation here is on the extent to which it will be able to improve the ore position, which the present market valuation of the company reflects. Metal prices are also a factor, with prospects for zinc somewhat obscure although it could respond to a recovery in the steel operating rate and to promotion of zinc's uses, which producers are undertaking. If you want to gamble, you could stay with Wilroy, but remember all mining is risky.

Commonwealth Int.

I have an opportunity to invest in Commonwealth International Corporation. I am interested in building an educational fund for my sons as well as a measure of security for the future. At present I am investing in savings bonds. Would you please give me your opinion about the wisdom of investment in this mutual investment company? Would it be wiser to continue to buy savings bonds with the guarantee of 4.71%? — A.L., Olds, Alta.

Your use of the word "opportunity" suggests that you think there is something special about being able to buy Commonwealth International. Mutual funds don't invite people to become partners in the

sense that an exclusive club selects its members. We never heard of any one who could put the cash on the barrel head being refused shares.

No hard and fast rules can be laid down as to the future desirability of any funds. Generally speaking we warmly commend the idea of managed investment, which the funds supply, but this is also available through trust companies, investment counsel and the portfolio-supervisory departments of some financial houses.

You give no clue as to your circumstances or as to whether you contemplate a contractual plan of mutual-fund buying or casual purchases at the going price as funds are available. Thus, we have no alternative but to tell you to stay with savings bonds.

Feast or Famine

Contemplating retirement, I shall be counting on income from my investments to supplement my pension. I would like your opinion on Montreal Locomotive. Do you consider it a blue chip and is market interest in it likely to last? — G.H., Beauharnois, Que.

We can think of few stocks less entitled than Montreal Locomotive to rank as a blue chip, worthy of inclusion in the portfolio of the investor for steady income. The locomotive-equipment industry is a feast or a famine, with pronounced fluctuations in earnings, dividends and stock market interest in its equities. They are the type of thing the ill-advised investor might buy in a rising market and be frozen in for years. Shun them if you can't afford to gamble.

Selling Mutual Funds

I have been approached by representatives of three mutual fund-selling firms to become a member of their sales staff and would like some help in deciding which would offer the best in services and benefits to the public, be the strongest and most lucrative insofar as commissions and other benefits for employees are concerned. I want to explore every aspect of the situation before I decide, since I certainly would not want to sell my friends and acquaintances a "bill of goods" and have them unhappy. I have



**IMPERIAL BANK OF CANADA
DIVIDEND NO. 282**

Notice is hereby given that a Dividend of Forty-five Cents (45¢) per share has been declared for the quarter ending 31st January, 1961, payable at the Head Office and Branches on and after Wednesday, the 1st day of February, 1961, to shareholders of record of the 31st December, 1960.

By order of the Board.

H. W. THOMSON,

General Manager

Toronto, 7th December, 1960.

IMPERIAL
the BANK that service built



**THE STEEL COMPANY
OF CANADA, LIMITED
DIVIDEND No. 198**

Notice is hereby given that dividend No. 198 of sixty cents (60c) per share for the quarter ending December 31, 1960, has been declared upon the shares of the Company, payable Wednesday, February 1, 1961, to shareholders of record at the close of business Friday, January 6, 1961.

By Order of the Board,

W. C. CHICK,

Secretary,

Hamilton, Ont., December 12, 1960

**THE CONSOLIDATED MINING
AND SMELTING COMPANY
OF CANADA LIMITED
DIVIDEND NO. 111**

NOTICE IS HEREBY GIVEN that a Dividend of Forty Cents (40c) per share, and an extra distribution of Ten Cents (10c) per share, on the paid up Capital Stock of the Company, have this day been declared for the six months ending the 31st day of December, 1960, payable on the 16th day of January, 1961, to shareholders of record at the close of business on the 16th day of December, 1960.

By order of the Board.

F. L. Hallam,

Secretary-Treasurer.

Montreal, P.Q.,
8th December, 1960.

heard of wild representations being made and have had friends buy shares in saving companies and be very unhappy afterwards. — L.L., Calgary.

While a preferential rating of the desirability of mutual fund-selling organizations as a source of selling income is not too practical, it is possible to discuss certain general principles.

The most pertinent question probably is whether the fund-selling organization is going to pay you a salary for a suitable training period. If not, there is a strong suspicion that it is really seeking straight-commission bird dogs to exploit their friends and acquaintances. When you've sold them, where are you going to obtain suspects who can be promoted into prospects? Has the selling organization an effective advertising program for generating good inquiries? Are inquiries distributed equitably among the rank and file of salesmen rather than diverted to a preferred group which exists in many specialty-selling outfits? Has the firm devised a means of protecting your prospects from its other salesmen?

Since the funds have been promoted by reputable people, there is not much chance of buyers being landed with a "bill of goods", but the practical aspects are something else again. Some funds have been considerably sold on the basis of their record of the past 20 years during which the stock market advanced from extremely low levels to extremely high ones. The funds were beneficiaries of this trend but can scarcely claim prescience of it. No fund prospectus would predict a comparable performance over the next 20 years, but apparently that is what many fund salesmen are implying in their sales pitch.

Mutual-fund selling could be a profitable pursuit for any one who was financed long enough to learn the business and build the nucleus of a clientele. But don't look for overnight success.

News & Dividends

Do you think shares of Canadian industrials would be more attractive if more companies issued interim reports? The response to last winter's drive of the exchanges to have listed companies provide more operating reports does not exactly seem to have put a premium on space on the financial pages of the dailies. — B.F., Montreal, Que.

Volunteering of more information by Canadian corporations might foster investor interest in them but would leave untouched one of the major obstacles to Canadians buying equities of domestic corporations. This obstacle is the extreme parsimony of some companies with dividends. They prefer to plow the bulk of earnings back into expansion, reducing

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**Dividend No. 296
and Extra**

NOTICE is hereby given that a dividend for the quarter ending January 31, 1961 of forty-five cents per fully-paid share on the outstanding Capital Stock of this Bank and an extra dividend of twenty-five cents per fully-paid share have been declared, payable at the Bank and its branches on February 1, 1961, to shareholders of record at the close of business on December 31, 1960.

By Order of the Board

J. P. R. Wadsworth,

General Manager

Toronto, December 16, 1960

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Dividend Notice

At a meeting of the Board of Directors held today a final dividend of seventy-five cents per share on the Ordinary Capital Stock was declared in respect of the year 1960, payable in Canadian funds on February 28, 1961, to shareholders of record at 3.30 p.m. on January 5, 1961.

By order of the Board.

T. F. Turner,
Secretary.

Montreal, December 12, 1960.

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DIVIDEND NUMBER 47

NOTICE IS HEREBY GIVEN THAT a dividend of Twenty-Five Cents (25c) per share plus an extra dividend of Ten Cents (10c) per share has been declared by the Directors of Ventures Limited, payable in Canadian funds on January 31, 1961 to shareholders of record at the close of business on January 16, 1961.

By Order of the Board.

G. T. N. WOODROOFFE,
Secretary.

Toronto, Canada.
December 14, 1960.

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the attractions of common stocks as a source of income.

It could be in the national interest for companies to pay out the bulk of their earnings in dividends, and then raise development capital by new issues of stock. In this way, the smaller shareholder would be getting his due and a company's expansion would represent the consensus of stock market judgment rather than the arbitrary action of controlling interests seeking long-term capital gains. This policy of ignoring the smaller shareholder is part of the same attitude of dictatorship which reflects in a sparsity of news from many companies.

British Aluminum

We are a small investment group and would appreciate your opinion regarding Canadian British Aluminum of which we hold a few shares bought at 15¼. Should we sell now and take our loss, or is it worth holding? Also would you have any information pertaining to Burry Biscuits, listed on the American Stock Exchange?—E.S., London.

You would not have bought Canadian British Aluminum unless you were a speculative group, so you could well consider retaining it, especially since it seems to have as promising a future as any comparable situation in its price class. Aluminum consumption has traditionally doubled every 10 years. The metal's factors think history will repeat itself, as evidenced by programs of expansion now being implemented by U.S. producers, with announcements of further expansion expected early in 1961.

Aluminum making requires huge quantities of low-priced electric power. The position of an aluminum maker based on power sites such as those from which Canadian British draws its energy should be bright. The company has only been operating for a few years and earnings should improve, while an increase in productive facilities is in order.

Burry Biscuits is an American corporation, and is outside our purview.

Canadian Curtiss

Would you please be good enough to advise regarding the potential of Canadian Curtiss-Wright as an investment for appreciation and possible future dividend income? — H.S., Ottawa.

Canadian Curtiss-Wright is one of several small Canadian companies in the capital goods field. If a profitable operation can be established, officials will be entitled to kudos, but on the basis of information available at this time it is difficult to regard the company's shares as anything but highly speculative.

Canada Tungsten

Are the ore reserves of Canada Tungsten Mining Corp. proven, and is there likely to be a market for the ore? The stock went from \$1 to \$2 but has since dipped to \$1.40. — R.F., Vancouver.

Canada Tungsten has obtained some indications of a commercial deposit of tungsten, a material which there should be no difficulty in selling. It is not unusual for new issues to enjoy rapid appreciation, especially when they enjoy sponsorship such as this company. The subsequent decline probably partly reflects dominance of today's markets by the seeker after income. Canada Tungsten is some way from dividends. No projections of possible earnings have apparently been made as yet.

Burns & Provo

Would you please give me your opinion of shares of Burns & Co., meat packers of Calgary, and Provo Gas? — W.G., Dorval, Que.

Burns is an interesting situation for the speculative investor. Few industries are more essential than one based on processing livestock. Western issues have not had as much impact on eastern investors as might be expected, but this could change under the impetus of improved shareholder communications.

Provo is typical of many small companies based on western oil-land plays, and inclined to drift in the present period of overproduction in the industry. It could be held by any one with much patience.

In Brief

Has Union Oil & Development (South Dakota incorporation) any value? — V.H., Niagara Falls.

Sorry, unable to answer queries on non-Canadian situations.

I am down 20 points on Bathurst "A" bought at 60. Should I hold? — S.G., Toronto.

Would suggest retention for speculative purposes.

What happened to Dawson Red Lake Gold Mines? — P.A., Toronto.
Still alive, but idle since 1951.

Anything to encourage New Calumet Mines shareholders? — C.G., Sault Ste. Marie.

Opening up some high grade, but remains small mine.

Do you like McKenzie Red Lake?—R.S., Ottawa.

A long-shot gamble in a lively camp.

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Point of View

Common Sense: Let's Keep The H-Bomb

by J. D. Morton

THESE ARE SOME reluctant reflections on an old story. The story goes that a Pope of ancient times was accused by his cardinals of heresy. "Judge me" he replied. "We cannot judge you. You are the Pope and we are but cardinals" was the answer. "Judico me cremari. I judge myself to be burned" said the Pope. And he was burned.

I would much sooner join the Ban-the-Bomb movement and urge Britain and the U.S. to throw away their bombs even if Russia would not agree to do the same. I have the greatest sympathy for the people of Britain in their present dilemma about American bases. I am appalled at the thought of atomic weapons in Canada.

But, so-called common sense should represent the triumph of experience over idealism. Turning the other cheek has rarely been taken as a literal precept — the history of the Christian churches to the present day demonstrates that. That modified type of cheekturning called Passive Resistance practised by Gandhi worked only against the British at that particular moment of history. It would have been a suicidal man who would have laid himself on the tracks in front of a Japanese railway engine in 1943!

What then can we, the ordinary people, do to protect ourselves from destruction? Destruction is what our glorious leaders on both sides promise us, with their constant talk of "total nuclear war" and "massive retaliation".

And yet, is this what they really mean? Many people have been sorely perplexed by the apparent contradiction between scientific opinion as to the effects of all-out nuclear war and the various Western governments' insistence upon civil defence measures which appear absurd in the face of such a threat. There is no point in erecting concrete block shelters in the face of the end of the world.

Could it be that our glorious leaders both Eastern and Western envisage a limited atomic war as the next step in man's inhumanity to man? Are they thinking of a war fought once again on the basis that a certain number of us are expendable; that the destruction of say,

New York, could be balanced by the destruction of Leningrad?

This seems to be the only possible inference from the continued governmental enthusiasm for civil defence. Basement shelters in Chicago and Toronto would

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I WILL ARISE and go now, and beg my bank for means,
And a small shelter contrive, of mortared cement-blocks made.
No bean rows will I have there. I do not care for beans.
I'll crawl inside for the raid.

And I'll have little peace there once missiles start to fall,
Dropping from the far ionosphere to where my shelter stands.
There night will be all a glimmer, high noon an atomic pall,
Extremely hard on my glands.

I will arise and go now, for always night and day
The papers solemnly warn me be ready for the surprise.
And just to add to my worries: because of my shelter gray
My property tax will rise. VIC.

protect the citizens of those great cities during the vaporisation of the citizens of the great cities of Detroit and Stalingrad!

Common-sense should warn us that this limited atomic war is the immediate danger. Children play with matches — they do not usually make a deliberate attempt to burn the whole house down. Further, a limited atomic war would enable our glorious leaders and their generals to carry on the traditional game of war with a series of conferences and decisions instead of one last one; maps on which pins and flags could be moved; and finally a place of safety in which the leaders and their generals could survive to engineer the peace.

The Ban-the-Bomb movement misses

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the point. Concern for the ordinary people born or unborn has never prevented wars in the past. *The only hope for peace may be the danger of total war. In total war not only the ordinary people, but their leaders and generals will inevitably perish. Experience shows that this was not so in the pre-atomic history of the world.*

England has had a long history of wars and millions of Englishmen have died in battle, but no English king has died as a result of war since King Harold fell at the Battle of Hastings in 1066.

Since the war-making power passed to Parliament, there does not appear to be a case of an English cabinet minister dying as a result of enemy action with the exception of the general, Kitchener, in the 1914-1918 War.


Napoleon Bonaparte died in bed, as did Joseph Stalin, Franklin Roosevelt and Neville Chamberlain. The Emperor Hirohito is still with us as is Harry S. Truman, Sir Winston Churchill and General de Gaulle. Adolph Hitler died by his own hand. General Eisenhower and a vast array of other planning generals on both sides in the last war have survived to flood the market with books about their experiences.

The same rules would not govern a total nuclear war. Down would come everyone, leaders, generals and all. Peace-loving people might be well advised to change their slogans to —

KEEP THE BOMB

and concentrate their efforts on the prevention of further testing with its contamination of our world.

We, the people, do not want a "clean bomb". The "cleaner" a bomb is, the safer it is for those who decide to drop it! Until we can be sure that all nations have abandoned their nuclear arms, we should keep our own and trust that the inherent difficulty of distinguishing between a limited and total atomic war may persuade the leaders on all sides that for the first time in history, War Does Not Pay.



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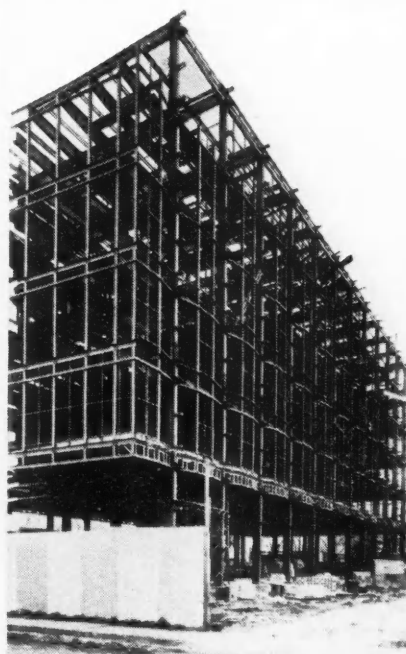
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